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George MICKHAIL
Daniel PIRRELLO

LABORATOIRE ORLEANAIS DE GESTION
EA 26.35

I.A.E
Faculté de Droit d'Economie et de Gestion
rue de Blois - B.P. 6739
45067 Orléans Cedex 2

Tél. : 02 38 41 70 28
Fax : 02 38 49 48 16
E.Mail : log@univ-orleans.fr
http://www.univ-orleans.fr/DEG/LOG/

THE METACAPITALISM CULT

George MICKHAIL[1]

Professeur invité étranger, LOG, DEG, Université d'Orléans, France

Senior Lecturer, Accounting & Finance, University of Wollongong, Australia

Daniel PIRRELLO

School of Accounting and Finance, University of Wollongong, Australia

[1] All correspondence should be addressed to the principal author George Mickhail at: School of Accounting and Finance, University of Wollongong, NSW 2522, Australia. E-Mail address: george@uow.edu.au.

Résumé : Le culte du MétaCapitalisme

Qu'il s'agisse de notre vie professionnelle ou de notre vie personnelle, la promesse d'immortalité exerce le même pouvoir de séduction. La promesse de salut délivrée à l'entreprise ne diffère guère de la promesse faite aux êtres humains. Cet idéal de salut, qui a exercé sa fascination sur toutes les époques, les religions ont promis de le réaliser. Les entreprises de conseil s'inscrivent dans la même logique, dans la mesure où elles constituent, pour les entreprises, l'équivalent contemporain d'une expérience religieuse.

Les prophètes du conseil s'emploient à générer ce genre de sentiments en utilisant tout un vocabulaire symbolique tel que « reconfiguration des processus », « meilleures pratiques », etc, dans un rituel baptisé MétaCapitalisme, impliquant une communauté de croyants, en l'occurrence leurs clients.

Ce rituel, par le biais du Culte du conseil, a des conséquences qui vont bien au-delà des seules entreprises clientes et affectent de manière importante de nombreux groupes de personnes et d'institutions dans notre société devenue globale. Ce constat justifie de procéder à un examen critique de ses mérites.

Notre recherche explore la performance du MétaCapitalisme, un terme forgé par le géant du conseil, Price Waterhouse Coopers (PWC), pour décrire sa vision de la « nouvelle économie », qui traite de l'utilisation des *e-markets*, des échanges en ligne et des communautés d'affaires en réseau, et a eu pour effet de démultiplier l'impact des développements technologiques et des principales améliorations de la vie des affaires issues des années 1990.

Le MétaCapitalisme peut être appréhendé en analysant la conversion des leaders du MétaCapitalisme au modèle prôné. Notre étude, en appliquant des techniques de régression à un certain nombre d'indicateurs clés, identifie les tendances relatives à la performance de ces leaders et les compare avec les tendances observées pour les 100 premières entreprises du groupe Fortune.

Il en ressort que les entreprises du MétaCapitalisme ont été incapables de maintenir la transformation apparemment brillante qu'elles avaient opérée en 1999 et que sur de nombreux points, les tendances présentent des retournements imprévus par rapport au maintien de la structure idéale du MétaCapitalisme.

Une évaluation critique de ces observations est effectuée de manière à valider la possibilité de généralisation du modèle, afin d'être en mesure d'éviter une expérimentation sociale continue et préjudiciable.

En conclusion, la stratégie du MétaCapitalisme présente d'indéniables similitudes avec les cultes religieux, ce qui amène à la question suivante : le MétaCapitalisme aura-t-il le même destin que la plupart de ces cultes, à savoir, le désenchantement est lié à des espérances déçues ?

Abstract :

The salvationary promise of immortality is equally seductive let alone dominant in our personal and professional lives alike. The promise of a company's global successful salvation is no different to the promise of humans' salvation. It has been the most revered ideal over the ages and religions promise to deliver such salvation. Consulting firms are no different, as they represent the modern religious experience to companies. The prophets of consulting have been invoking such feelings of 'awe' with their 'symbols', like: Business Process Reengineering, Best Practice and so on, in rituals, such as: MetaCapitalim, engaged in by their community of believers, that is: their consulting clients. It is our concern that rituals, such as: MetaCapitalism, by the Consulting Cult has far reaching effects on too many groups of people and institutions within our global society, which warrants a critical examination of their merit. This research explores the performance of MetaCapitalism, a term coined by consulting giant Price Waterhouse Coopers (PwC) to describe their vision for the 'new economy' which deals with the use of e-markets, on-line exchanges and networked business communities in order to truly leverage technological developments and the major business improvements from the 90s. MetaCapitalism is captured through analysing the 'MetaCapitalist leaders' conversion to the recommended model and comparing trends associated with a number of key indicators and using regression techniques against other Fortune100 firms. It was found that the MetaCapitalist firms were unable to maintain their seemingly glowing transformation experienced during 1999 and many of their trends revealed unpredicted reversals in maintaining the desired MetaCapitalist structure. A critical evaluation of the empirical assessment is performed to assess the model's universal practicalities, as opposed to continuing any damaging social experimentation. In conclusion, the MetaCapitalist strategy has undeniable parallels that are analogous to religious cults, which raise the question: will MetaCapitalism suffer a similar fate to that of most cults? Undeniable disappointment from unrealised fantasies.

I. Introduction

Everyone is trying to find a "rational" explanation for corporate failures and one of the most touted reasons is "peculiar" accounting practices. Let's assume for the sake of argument that these "peculiar" accounting practices have been there for quite some time as common "creative" accounting practice in most corporations. Perhaps, total blame cannot be justifiably pinned on the accountants. The accounting firm Arthur Andersen, for example, was responsible for some corporations that collapsed; however, a lot of their other clients have not suffered the same fate – as yet. What else apart from "peculiar" accounting practices may be "blamed" for such failures? The Economy, the war on terror, anti-globalisation, and the list of possibilities goes on. The notable thing about all these "scape-goats" – accountants included, is that they are *external* to the company and beyond its control. We have long subscribed to externalising the blame, due to our well founded belief in the free market economy and its inherent "*blame it on the invisible hand of the Market*" mentality. Let's dispense with "externalising the blame" idea for the moment, and examine whether the blame should be internalised instead?

Generally speaking, the market rewards or penalises a corporation's performance by assigning a market-value that is often different to its book-value. This value represents the "market" perception of the composite of *intellectual strategies* (which may be labelled *intellectual capital*) deployed to utilise corporations' resources. These strategies are reduced into measurable financial instruments, such as: PP&E ÷ Total Assets - where their effect on overall performance is calculated by comparing the financial statements over a period of time.

Meanwhile, corporate strategies are "monopolised" by the global corporate consulting firms, such as Andersen Consulting, PricewaterhouseCoopers and others, who advise their clients to adopt the latest and greatest strategy to ensure their success and survival in such an unpredictable environment. *The question that begs an answer is: what if it was such deployed corporate strategies were directly responsible for corporate collapses?*

The hyped successes of internet companies in the late 1990s has enticed or in some cases, forced corporate consulting to adopt many of these "*internet success strategies*" for their more traditional clients in the fields of manufacturing, oil and gas, public sector companies, government, education and so on.

The media hype[2] for PriceWaterhouseCoopers' new corporate strategy ritual: MetaCapitalism, which may be considered as a generic form of such contemporary change strategies, with its revolutionary promise of transforming the structure and core business models in every sector, to value creation in the new economy, is a phenomenon worthy of examination given the symbolic significance of the world's largest business advisory firm placing its name next to such a model.

This global transformation is coupled with organisational changes largely driven by the three evolutionary waves of business use of the Internet over the last decade. The first wave was eCommerce, where the focus was on selling online and the second wave was on supply chain management, to enable companies deliver what customers ordered online. The current wave is to optimise the financial supply chain, to manage e-Business processes from order to cash by leveraging eBusiness in order to reduce working capital. This necessitates a shift towards a decapitalised e-Business Model, such as: with PriceWaterhouseCoopers' new corporate strategy ritual: MetaCapitalism.

The MetaCapitalist argument contends that the centuries-old traditional business model (Figure-1) in which brand-owning companies place a premium on maintaining internal bases of physical capital — buildings,

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[2] Grady Means, (2001), The Next Wave, CNBC, April 29.
_____, (2001), Rebirth of the New Economy, ROI Computerworld, March/April.
_____, (2001), The New Economy Forces New Thinking about our Future, Sunday Boston Globe, January 14.
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Editorial, (2000), How Fast Can This Baby Go?, Business Week, April 10.

telecommunications infrastructure, etc. — is crumbling and giving way to thinly capitalised (de-capitalised) brand-owning companies operating with external or outsourced networks of services providers.

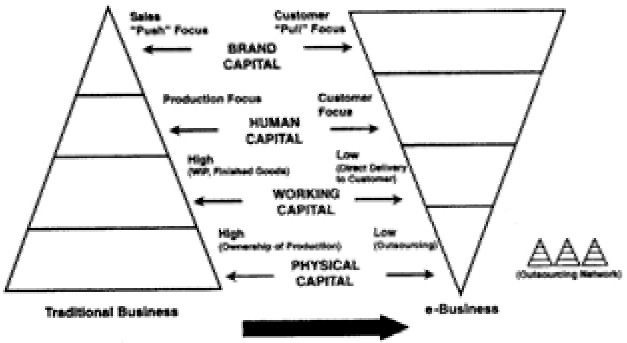

Figure 1 – The MetaCapitalist Model[3] of the Organisation

The evolutionary advances in communication (TCP/IP enabled different computers' to be connected) and collaborative (HTML enabled documents to be viewed and exchanged irrespective of the type of computers) technologies, has enabled companies to finally integrate and fully leverage changes that took place in the 1990s, in particular restructuring and business process standardisation, the integration of global capital markets, and a focus on core skills (and resultant moves towards outsourcing).

Through these changes, comes the emergence of "brand-owners" — companies focusing their energies on meeting 'customer' requirements and driving 'product' innovation by outsourcing non-core physical capital activities across both the supply and demand chains. Hence, the company becomes the network builder and "systems integrator", and it may even move to providing nothing at all and simply have products or services delivered from external suppliers to fulfilment centres or direct to the customer.

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[3] Means, G. and Schneider, D. (2000), "MetaCapitalism - The E-Business Revolution and the Design of 21st Century Companies and Markets", John Wiley & Sons Inc., USA.

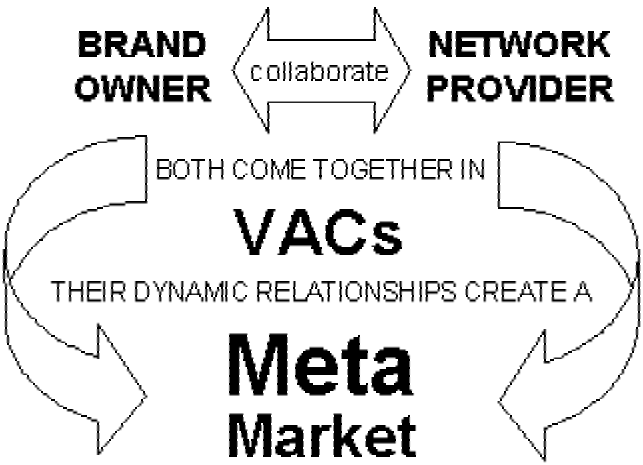


Figure 2 – The Development of the MetaMarket

The networks of external providers — e-markets or "VACs" (Value-Added Communities) — covering both the supply chain, as well as processes, such as: financial and human resources services.

Very sophisticated 'businesses' have already been created around supplying these services, with large "brand-holding" companies increasingly turning to networks that can more efficiently focus on certain parts of the supply chain and functional processes.

The Internet with its enabling communication and collaborative technologies, has created unprecedented opportunities for companies to create and participate in VACs — reaping the benefits of cross-companies optimisation, new efficiencies to the supply chain and new innovative ways of selling and purchasing educational products and services.

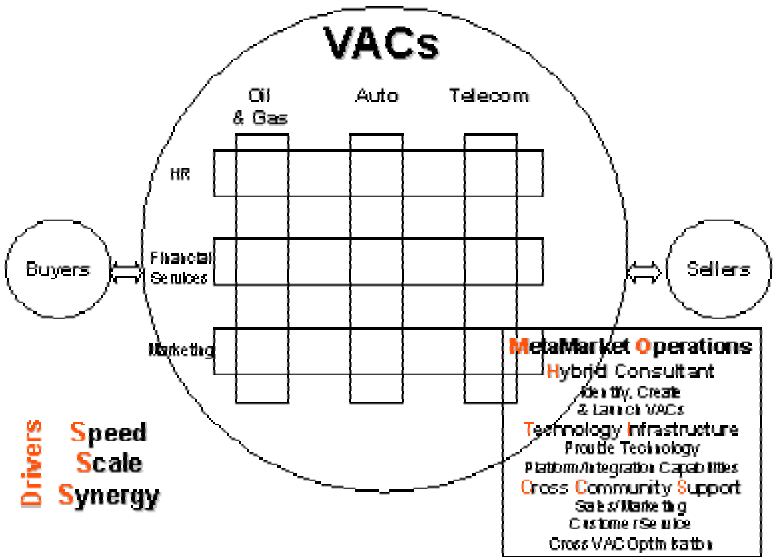


Figure 3 – The Horizontal and Vertical Dimensions of a VAC[4]

VACs are already forming along at least two primary dimensions — addressing either industry-specific processes, or cross-industry processes.

- Industry-specific, or vertical communities, organised to resolve specific supply chain inefficiencies, such as: oil and gas, auto and so on.
- Cross-industry, or horizontal communities, address functional processes, such as financial services, HR, marketing and so on — solving problems that are common to more than one market.

And as these communities continue to evolve, and begin to become more organized and efficient, new models begin to emerge as VACs begin to consolidate and integrate themselves into larger communities, called MetaMarkets. MetaMarkets essentially knit together a set of VACs to provide an integrated suite of services, providing common cross-industry processes to a series of industry specific communities.

[4] Ibid.

The formation of e-markets, on-line exchanges and networked business communities have allowed companies to integrate and maximise changes that took place in the 90s such as restructuring, business-process standardisation and the integration of global capital markets, with a focus on core skills and outsourcing.

PricewaterhouseCoopers claims[5] that as traditional business models become obsolete, a move toward external network communities is evolving. Financial markets were seen to reward companies that re-focus away from the management of production and large internal capital bases and shifts towards consumer needs, customer ownership and the benefits associated with a networked business environment (which is referred to as a value-added community).

This massive revolution is expected to create unprecedented economic value and wealth creation that will accelerate the growth of worldwide capital markets from $20 trillion to levels potentially approaching $200 trillion in less than 10 years.

The authors predict that this recent period will be 'the single greatest change in worldwide economic and business conditions ever'. Numerous industry examples were cited within the book, focusing on those firms (such as Cisco, Dell Computers, Honeywell, Ford and General Electric) who are league-leaders in the Metacapitalism wave.

This bright economy isn't flourishing as predicted even in the short term- and what's more interesting is the rapid decline in share price of Metacapitalism's leading firms. Cisco's share price has dropped from $70 (when the book was released) to $20, Dell has dropped from $60 to $25, Ford $4 to $1.1 and so on, during the past few quarters.

While there is much to agree with in the MetaCapitalist argument - the future will indeed by dramatically impacted by the internet, the need for organizations to respond more quickly, the growth of a high-tech society, and such like - there are some premises that MetaCapitalism is built upon which give us cause for concern. We wish to offer a word of caution about the scenario it paints, and in particular the future it depicts given the current global economic instability and public institutions rush to privatise. Public institutions like any other private institution must survive economically and there are no alternatives to using the Internet, de-

[5] Means, G. and Schneider, D. (2000), "MetaCapitalism - The E-Business Revolution and the Design of 21st Century Companies and Markets", John Wiley & Sons Inc., USA.

capitalization and consolidation of their business. In the next section, we hope that the empirical analysis will help dispel some of the myths associated with the invincibility of MetaCapitalism.

II. Empirical Analysis of MetaCapitalism

The difficulties in performing a critique of MetaCapitalism should be apparent. The measurement considerations are not straightforward to underpin what aspect of the model can be captured. And this is based on the assumption that the MetaCapitalist model can be adequately identified – no mean feat, when dealing with a complex and far-reaching strategy.

The objective of this research is to perform an exploratory-type analysis, which typically doesn't require a stated hypothesis that is empirically tested. However, since the analysis contains various quantitative tests, which will influence our final statements, a hypothesis will be employed. Hence, the focus of this study must be precise, as stated by Zikmund [2000, p87], a 'decision made on the basis of a solution to the wrong problem may be actually harmful'.

The ***null hypothesis*** can be stated as follows: the performance of the MetaCapitalist firms is similar to the performance of the non-MetaCapitalist firms. Alternatively, the ***guiding*** or ***directional hypothesis*** states: the performance of the MetaCapitalist firms is below that of non-MetaCapitalist firms. The directional hypothesis expresses our concerns based on the preliminary evidence associated with the poor stock performance of the MetaCapitalism-based firms during the analysed period. Such a broad overall hypothesis is difficult to statistically answer, but still helps in guiding this type of analysis. Through applying a range of various indicators, it is hoped that we are better equipped to discuss the two alternatives, if it isn't possible to conclude one particular way with confidence (as may be expected in analysing a strategy before its expected completion).

II.A. The Evaluating Model

A major aspect of this research centres on what areas need and are able to be tested. The hypothesis reveals a key assumption used in the study – that is, known MetaCapitalist firms are used as a proxy for representing the MetaCapitalist strategy. It is improbable to try to identify each and every aspect associated with the implementation of MetaCapitalism. Its nature can range from simply setting up a basic web site to creating a full-fledged market site that facilitates automated bidding amongst competitors, as implemented by General Motors. Hence, the only true way to ensure we

are analysing firms that follow the MetaCapitalist model is to focus on the firms as listed in *MetaCapitalism* – the MetaCapitalist leaders that are selling MetaCapitalist ideals.

After all, if these firms are underachieving relative to their rivals, then what hope do the less-praised MetaCapitalist followers have? Also, by focusing on the handpicked 'success-stories', it should review exaggerated results in relation to the true performance of MetaCapitalism. This will assist the process of identifying differences between MetaCapitalist and non-MetaCapitalist firms, which can only aid final recommendations and findings. It is sensible to review various aspects of MetaCapitalism in a similar fashion to how they are promoted and discussed by authors Means and Schneider. This ensures that there is a continued focus on the indicators, predictions and guidelines that PwC consider central to MetaCapitalism.

The numerical analysis has layered value. Firstly, it helps determine if the firms associated with PwC are following the book's set guidelines for a MetaCapitalist firm. This is expressed through appealing to various ratios and indicators that help identify a metacapital-led firm. Obviously this analysis alone cannot be used to identify such clients, but it should approximate if the firms are following the guide as suggested by the PwC strategists. Secondly, the numerical analysis will help quantify the recent success of the MetaCapitalist firms, and ultimately, the MetaCapitalist strategy.

If it is found that the PwC-associated firms perform significantly different to their largest competitors, then it is possible to remark about the strategy's success. Through balancing the various results of applying different indicators, it is hoped the final judgements will be quite broad and reflective of the initial implementation of MetaCapitalism. It should be remembered that the purpose of this analysis is exploratory, so this broad analysis is justified.

II.B. The Indicators forming the model

Obvious attention must be paid to the indicators selected to analyse MetaCapitalism, due to their directing influence on the final conclusions. As mentioned previously, Means and Schneider refer constantly to the stock price or market value of companies and industries. Firm value can be measured in two ways: 'one conservative figure represents the bean counters (accountants) and the other is more radically outrageous representing the yuppies (stock brokers)' [Mickhail, 2001, p2]. The

authors favour the market value, or 'yuppies' value, as they believe the 'market is not wrong' [Means, 2000, p27] and can quickly capture changes in a businesses environment and prospects. Thus, it makes an excellent analytical tool in determining the progress of the firms in a short time period.

Throughout *MetaCapitalism*, Means and Schneider refer to *premiums* that were rewarded to e-business companies that were proving to be nimble, and achieving impressive capital leverage. As a direct consequence, they were convinced that the market was 'no longer rewarding the traditional style of company as richly as in the past' [Means, 2000, p5]. The authors boosted about their market value performance of their MetaCapitalism leaders: Cisco's price increased by around 400% in the year leading up to the book's release (March 2000), with many other firms (eg - Dell, Ford) achieving similar fortunes.

Hence, it seems appropriate to reassess these firms market performance during the past year – had the growth been sustained, flattened or reversed, and how did it compare to its competitors? This indicator should provide a good overall estimate of the firm's recent performance, as marked by the author's criteria. Obviously the share price is influenced by many factors, not just the implementation of MetaCapitalism, but it remains an important guide to how those firms are currently valued and perceived.

Means and Schneider make repeated reference to the impact of MetaCapitalism to the larger environment – they suggest that 'economic value and wealth creation will accelerate to unprecedented levels' [Means, 2000, p1]. More precisely, the authors predict that global capital market value will grow from $20 trillion to $200 trillion in fewer than 10 years. Although it isn't possible to fully evaluate this prediction in this thesis, we can obtain valid estimates of changes in the value of capital markets, to gauge its progress. It is appropriate to focus on the US markets, due to its dominant weighting in regards to total global wealth (it accounts for approximately 50% of global market capitalisation). From Grinblatt [1998], we are confident that 'firms have been financed with about 60% equity and 40% debt, with the percentage of equity financing increasing somewhat in the 1990s' [Grinblatt, 1998, p5].

Therefore, it is possible to gain a reasonable approximation of the author's estimate, through observing a major (overall) US equity measure. Since Means and Schneider also 'agree a Dow of 100,000 is possible within a decade' [Michaels, 2000, p26], the Dow Jones seems appropriate. Once

again, such indicators can only be used as a guide, and it is important to be logical and systematic in reaching any final conclusions.

Comparing differences between the MetaCapitalist firms and an appropriate benchmark (Fortune 100 firms) also has applications for the Capital Assets Pricing Model (CAPM). If there is a significant difference between these two types of firms (considering MetaCapitalism as a factor), it can be used to explain differences in share returns for a given stock. The expected return (**r**) of a stock (**i**) at time (**t**) is given as:

$$\mathbf{E(r_{it}) = r_{ft} + \beta_i (r_{mt} - r_{ft})}$$

where r_{ft} is the risk free rate (at time t), r_{mt} refers to the risk premium for the market portfolio, and β_i is beta, taken to be the appropriate measure of risk of an individual security of investment, i. Hence $E(r_{it})$ is the estimate of a stock' taking into consideration its perceived (and calculated risk) and the overall market performance for that period. Any differences unexplained by this model for an individual security is referred to as its abnormal rate of return, ar_{it}. This is expressed as:

$$\mathbf{ar_{it} = r_{it} - E(r_{it})}$$

where r_{it} refers to the actual individual stock return for time (or period) t. As outlined by Reilly [2000, p220] the abnormal rate of return is often used to test the efficiency of markets, and hence, test the assumptions of CAPM. For this study, if the abnormal returns are significantly different for the known MetaCapitalist firms compared to the Fortune 100 firms, then this factor would appear significant for explaining actual share performance after considering their CAPM estimates. This approach has been used widely in the past to test if certain factors can add to the CAPM model, such as the timing and contents of firm income reports as performed by Ball [1968].

The null hypothesis (H_0) captures the known CAPM predictive model. This is the recommended model, which explains any changes in abnormal returns over time. This is tested against the alternative (or directional) hypothesis (H_1), which includes a MetaCapitalism factor to this additional model. We are testing if this additional factor improves on the original model and hence, it can be used to significantly differentiate the firm's returns based on this knowing this factor. Statistically, this can be expressed as follows:

$$\mathbf{H_0 : ar_{it} = B_0}$$

$$\mathbf{H_1 : ar_{it} = B_0 + B_1 (MC)}$$

where MC is a dummy variable representing whether a firm is associated with MetaCapitalism (1) or otherwise (0), and (B_0, B1) are estimated regression parameters. If the firms associated with MetaCapitalism have performed significantly worse after accounting for individual firm risk, then we would expect a relatively large negative B_1 parameter. It is hoped that the test results of this more technical analysis (from modern portfolio theory) will complement any trends of actual share performance.

Although broad indicators provide general overviews, using specific financial ratios can help pinpoint differences and problems with the MetaCapitalist strategy. As explained earlier, many of these financial ratios are mentioned in *MetaCapitalism*. We firstly must test the relative levels of capitalisation (such as physical capital) as a proportion of the total enterprise. We expect the MetaCapitalist firms to have a proportionally smaller base of physical and working capital, but also show a continued trend to reduce that base. The degree of decapitalisation can be tested using:

- PP & E (Property, Plant & Equipment) ÷ total assets
- Net Working Capital ÷ total assets

Other aspect that distinguishes MetaCapitalist firms from other firms, is the way in which they focus their available capital (as well as human capital). This is regarded as the 'degree of focus on core differentiators' [Means, 2000, p15], measured using:

- R & D (Research and Development) Cost ÷ Operating Costs

Under MetaCapitalism, firms are expected to have a high and increasing portion of their costs in R&D compared to their competitors. This is due to an increased emphasis placed on innovation and being a unique contributor to VACs and MetaMarkets.

MetaCapitalism is built on creating future efficiencies today. As suggested by MetaCapitalism, a restructuring policy involves decapitalising their non-core base (both physical and human capital) to facilitate an increase in outsourcing and networking. Hence, MetaCapitalism is pro-downsizing – lowering staff numbers to improve the overall efficiency and mobility of a firm. For example, Nortel is commended by the authors for the 'company's 18- to 36-month plan to reduce manufacturing and headcount by 8,000 people after entering into agreements with five manufacturing firms for the sale and outsourcing of certain facilities' [Means, 2000, p17].

Thus, it should be interesting to observe the human downsizing activities associated with the MetaCapitalism-based firms. It would be expected that their ratios would show a decreasing number of employees, relative to some size indicator (such as the firm's total assets). An appropriate measure can be calculated as:

- Number of Employees ÷ Total Assets

An important consideration relates to the time frame associated with the indicators. *MetaCapitalism* was publicly released around April 2000, so that must be considered the critical date to base the analysis around. Obviously the preceding period reveals key information of the companies' structure and position before the strategy became public. This knowledge is used as a basis to judge their recent performance during the past year.

However, the exact and non-altering nature of past financial data influences the time frames to be used in the analysis as mentioned below. We will analyse the years leading up to 2000 on an annual basis, allowing long-term trends to be identified, while also providing quarterly information from March 2000, which reveals greater depth in studying the recent performance of MetaCapitalism. The share data will be monthly from March 2000 to June 2001, which is also used for performing the abnormal returns regression.

II.C. Data Collection and Analysis

Collecting quality and flexible data is a desired attribute when dealing with a large number of firms. It is also important to select a sample that adequately reflects the larger environment, allowing more universal conclusions. As discussed previously, it seems sensible to focus on the 'MetaCapitalism Leaders' as revealed by Means and Schneider. The firm's who they 'framed their arguments around' [Means, 2000, p90] are:

- Cisco
- General Motors
- Ford
- Honeywell International
- General Electric
- Chase Manhattan Bank
- Dell

- Sony
- Dupont
- UPS

These firms are all Multi-National Corporations (MNC) and have been identified as 'attacking the market with the means of MetaCapitalism' [Means, 2000, p90]. Therefore, it is hoped that through combining these firms to form a portfolio, it will provide a good overall reflection of MetaCapitalism. Although MetaCapitalist ideas require unique applications to firms in different situations, the group's performance as a whole should still be representative and valid. Since we are using the leaders in applying MetaCapitalism, we expect the results will be exaggerated of the true MetaCapitalist average. This is ideal in determining specific areas of difference (associated with the model) such as assessing differences in abnormal returns.

The MetaCapitalist leaders must be analysed against a suitable benchmark: their nearest competitors and market leaders. For a variety of reasons, this project will use the Fortune 100 companies (and subsets) for a second portfolio. Obviously the second portfolio will exclude the MetaCapitalist leaders to aid the analysis aim of comparison. The popular Fortune 100 list comprises the largest firms in the world in terms of annual revenue. An initial attraction of this particular compilation is that it contains all of the MetaCapitalist leaders. This is desirable, as there isn't any immediate bias associated with using firms that aren't comparable in terms of size.

Using the Fortune 100 list also ensures we are dealing with firms that are all market leaders in their fields. *MetaCapitalism* makes repeated mention of the role of market leaders or brand-owning companies in the new economy; they are seen as the core of the VACs and have the resources to adapt the quickest to the recommended model. Therefore, the model has increased reliance on these market influencers, suggesting that they are prime targets to adjust to MetaCapitalist ways. This guarantees that the Fortune 100 companies represent an ideal portfolio to assess – if they are also converting to the model and how is the market assessing their prospects?

It was also interesting to analyse the problem from an auditor perspective. Auditor information was easily accessible, with the Big5 dominating over 95% of the market. Professional opinion suggested a high correlation between the audit and consulting client – after all, these Professional service firms were considered to be 'one-stop shops'. It therefore seemed

reasonable to use the audit client as a proxy for the consulting client, once knowing their approximate correlation.

This is supported by recent action from the SEC (Securities and Exchange Commission) that has questioned the true independence associated with their audit activities. In fact, only '27 cents of every dollar companies paid their independent auditor had to do with the all-important sign-off on corporate financial statements' [Lavelle, 2001, p40]. If the rule is passed, it will 'prohibit accounting firms such as the Big Five, from performing consulting services for the auditing clients' [Gardner, 2001, p101].

This reaction from the SEC suggests that the audit client may still be an effective proxy for being a consultant client as well. Hence, the second aspect of the data analysis will compare PwC audited firms with non-PwC audited firms. This approach will complement the 'MetaCapitalism leaders' approach, as it is more robust (due to the large size of both portfolios) and can allow reconciliation or confirmation regarding any concluding commentary.

Ease of information access is another consideration concerning data collection. Financial data for the Fortune 100 companies is publicly available over the Internet. Specifically, Yahoo and CNN financial sites provided the necessary balance sheets, profit loss statements and market information for the project. They also reveal company-related commentary on the individual firm matters, aiding any interpretation of the financial numbers.

The data used in run the abnormal returns regression used recognised estimates as commonly outlined in financial texts, such as Haugen [1997]. These include using the S&P500 Index to represent the market portfolio of risky assets, 10-year treasury bonds (with constant maturity rates) to represent the risk free rate, and a 60-month running average Beta.

Before the data analysis is performed, it is interesting to consider the various alternatives in performing an adequate analysis. Since PwC have created and are applying 'MetaCapitalism', an initial approach involved obtaining the PwC consulting client list, as our MetaCapitalism portfolio. For secrecy and confidentially reasons, the consulting superpower wouldn't release such information. This approach would have been preferable, as it would have allowed us to analyse MetaCapitalism with respect to differences in firm size, degree of application, firm cycle and others. It also would have allowed an accurate analysis of PwC's

consulting performance, which allows direct comparisons with their main rivals.

The data analysis can be broken down into two categories. Both groups provide information regarding the MetaCapitalist performance, and should provide complementary results. The two categories are:

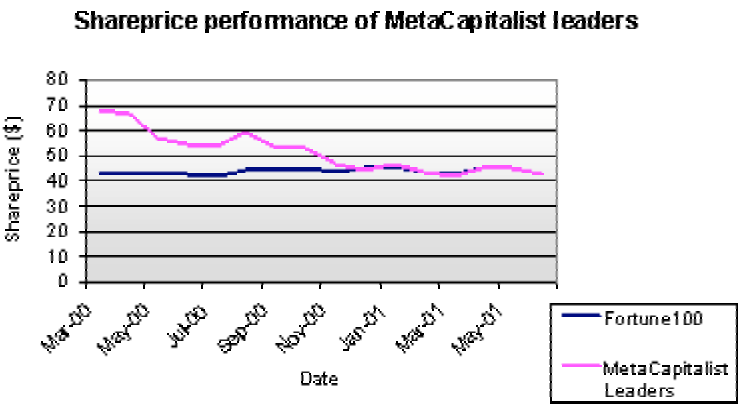
1. Portfolios constructed using auditor information, separating PwC firms (Portfolio 1) from non-PwC firms (Portfolio 2)
2. Portfolios constructed separating MetaCapitalist Leaders (Portfolio 3) form the remaining Fortune 100 firms (Portfolio 4).

Portfolio's 1 and 3 will act as proxies for MetaCapitalism while Portfolio's 2 and 4 will act as a comparable benchmark. The Data Analysis will be sorted on the various ratios or financial indicators applied: these are (i) Share price, (ii) Decapitalisation, (iii) Focus on Core Differentiators and (iv) Downsizing.

II.C.1. Share Price Performance

The poor market performance of the MetaCapitalist leaders was a major catalyst for performing this study. Hence, we hypothesise that the share price of Portfolio 3 to reveal a downward trend from the period after *MetaCapitalism*'s release in March 2000. As shown in graph 1, the MetaCapitalist leaders performed as suspected, showing an alarming decrease during the last 3 quarters of 2000.

Graph 1 clearly reveals two distinct elements: (1) the MetaCapitalist leaders showing greater market activity and (2) the MetaCapitalist leaders coming 'back to the field'. Considering that converting to the MetaCapitalist model requires significant change from a firm, it is expected that financial markets will be more active in determining the firm's new revised value. Hence, the share market performance will reveal key elements to how these MetaCapitalist leaders were perceived during this period, a market perception that is influenced by direct and indirect positive and negative signals associated with a firm's recent performance and future prospects.

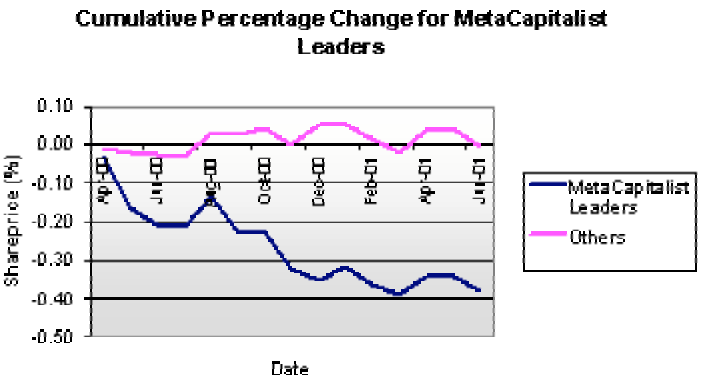


Graph 1 –Share price performance of MetaCapitalist Leaders

If we know there has been a change in the market's perception of the

MetaCapitalist leaders, we assume that something has occurred during this period to reflect this new perception. Or is it simply a reaction to an over-reaction? These possibilities and signals will be discussed in detail later, once the financial data is analysed.

This poor market performance is further captured in Graph 2, which deals with the portfolio's share price percentage change relative to the opening March 2000 price. The fortune 100 firms revealed a relatively stagnate market growth, finishing with only a -0.5% (June 2001) change within the 15 month period. Although such a performance isn't exactly desirable, it still represents a stable and solid base that the MetaCapitalist firms must envy. Portfolio 3 decreased by 37.5% during the set period, with most of the damage occurring during 2000 (35.4% decline at December 2000).

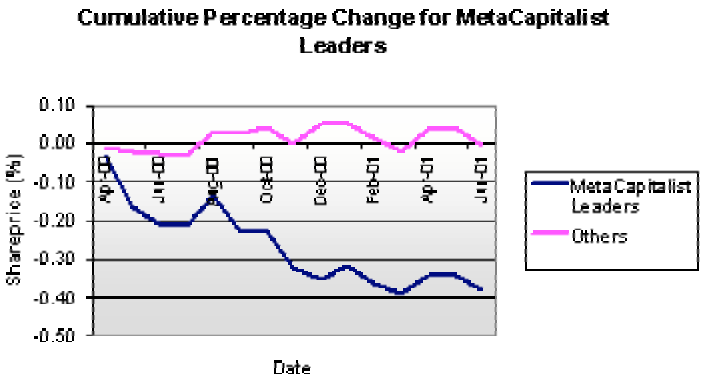


Graph 2- Cumulative percentage change for MetaCapitalist Leaders

This is hardly acceptable, given Means and Schneider's claim that MetaCapitalist-structured firms will receive a justified premium leading to high market-to-book ratios. Prior to the book's release, this appeared to be a reasonably well-supported claim given the astonishing share-value success of firms such as Cisco and Dell. Consequently, Portfolio 3 has a relatively high share price average of $68.26 in March 2000 (as seen in Table 1) compared to Fortune 100 firms, reflecting this suggested premium.

In fact, a graph of share prices of the MetaCapitalist leaders prior to 2000 would reveal the opposite of graph 1. That is, the MetaCapitalist leaders beginning with similar share prices as their fortune 100 competitors followed by a rapid and continued (over around 18 months) share price growth. Hence the market perception of these MetaCapitalist firms changed dramatically over this 3-year period, while the other Fortune 100 firms (on average) were very stable.

One aspect of perception is the hype generated by an 'in' trend, with the long-term analysis more reflective of its true worth or performance. Was the initial share value success of the MetaCapitalist leaders partly attributable to hype? It is interesting to note that every firm listed in Portfolio 3 suffered negative growth during this period, with Cisco fairing worst, experiencing a 76.5% of its value to finish at $18.20 in June 2001.

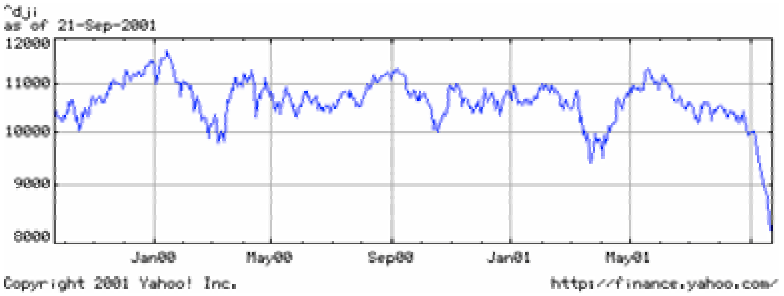


Graph 3 –Share prices for PwC Vs Non-PwC

When considering PwC firms versus non-PwC firms, a similar phenomenon occurred, but to a lesser extent. Graph 3 re-enforces how the PwC audited (and consulted?) firms were initially valued at a higher market price than their non-PwC rivals, by 18.8%. Considering these portfolios are both quite large with Portfolio 1 containing 30 firms while portfolio 2 contains 53 firms, this price difference is substantial.

Despite this 'premium', Portfolio 2 actually has a higher average than Portfolio 1 by November 2000, with the PwC firms slumming to $42.83. For the remainder of the period, both portfolios had a similar stock performance. Overall the PwC firms experienced a decrease in share value by 12.1%, while the non-PwC firms achieved positive growth of 1.2%. Once again, this suggests that the recent performance of MetaCapitalism has been anything but successful.

The Dow Jones Industrial average represents the 30 largest US-based firms and is most-recognised indicator of the US equity markets. We would expect its performance from March 2000 to June 2001 to be similar to that of Portfolios 2 and 4, as both are broad indicators representing the large economic performance to benchmark against MetaCapitalism.

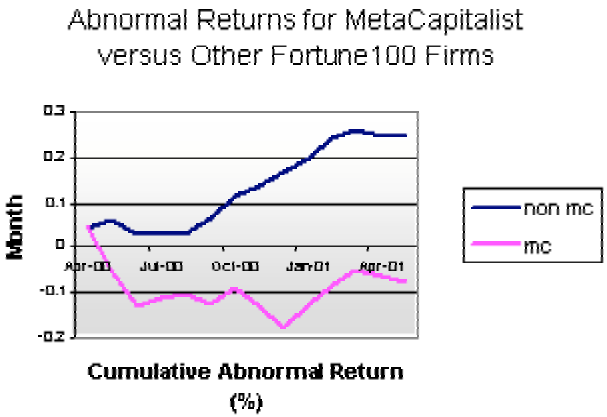


Graph 4 – Dow Jones Industrial Average

From graph 4, we can notice that the trend line is very flat despite the various fluctuations associated with selected time frame. More precisely, the Dow Jones closed at 10,921.90 points in March 2000 and 10,502.40 points in June 2001, representing a –3.8% decline. Although this is slightly worst than the average stock performance of portfolios 2 and 4, it is very favourable when compared to the MetaCapitalism-based portfolios (1 and 3).

It should also be remembered that Means and Schneider project a 'Dow of 100,000' [Means, 2000, p141] within 10 years, with such growth acceleration 'dramatically changing the most basic assumptions about public finance and the economic well-being of societies worldwide' [Means, 2000, p141]. Although sounding great in theory, based on the short-term performance of the economy and in particular, the MetaCapitalist leaders, its transition to reality appears extremely shaky.

Graph 5 reveals the monthly changes cumulative abnormal returns for the MetaCapitalist leaders versus the other Fortune100 firms. After the one-year period analysed, the cumulative difference for the Fortune100 firms was 25.2% compared to a –7.8% return for the MetaCapitalist leaders. Such a large difference seems to enhance our previous graphs, suggesting the recent share performance associated with MetaCapitalism is well below comparable benchmarks, even after allowing for the riskiness of the individual stocks.



Graph 5: The cumulative abnormal returns of the MetaCapitalist leaders versus Fortune100 firms.

The abnormal returns of the MetaCapitalist leaders drastically decreased in the few months following the books public release it March 2000. It was unable to recover sufficiently from that decline. On the other hand, the other Fortune100 firms steadily rose over the year period, ending in a clear difference between the two groups. This supports the ill recent performance of MetaCapitalism. The main factor to be considered is the gap between the two portfolios.

It was expected that Fortune100 firms would have an abnormal return fluctuating around zero, as it represents a large market portfolio. However, the fact it rose steadily may be attributable to other unexpected differences associated with these highly rated firms. It may even be attributable to the data used (eg- beta is sensitive to particular market rate applied), however this is constant across both firms, minimising any damage for this researcher's purpose.

A linear regression was also performed to test the stated hypothesis. We considered the annual abnormal returns for the two portfolios with each company being represented by one change in their abnormal return for the period. We obtained values of B_0=0.0952 and B_1= -0.1343. Remembering our interest in the B_1 coefficient, the F-statistic was 3.669 on 1 and 67

degrees of freedom[6] leading to a p-value of 0.05972. Hence, there is notable evidence against the null hypothesis (H_0), and we reject it at the 10% level of significance.

After considering the CAPM for assessing the returns of these stocks, there is evidence that the MetaCapitalism stock performance is worst than that of the other Fortune100 firms. Indeed, this is consistent with our previous results, confirming recent difficulties with the MetaCapitalist firms.

SUMMARY: Share Price[7]	
MetaCapitalist Leaders	* Starting March 00 there was a large difference between two portfolios. Reduced rapidly to be level with Fortune100 firms by Dec 00. Approximate 35% decline in cumulative difference over 15-month period (starting March 00) for MetaCapitalist leaders. * Evidence for a difference in Abnormal Returns based on classifying a firm as MetaCapitalist or Otherwise. Takes into account CAPM (individual stock risks and market returns)
PwC Firms	* PwC firms had higher average share price (March 00) by approx 20%. Very similar after Nov 00. Continued to May 01
Dow Jones	* Stationary trend from Jan 00 to May 01. No major increasing trend in corporate value
Verdict	**Reveals a poor recent performance of MetaCapitalist in relation to the critical stock performance indicator**

Table 1: Summary of resulting regarding Share price

[6] There were only 69 firms used in this analysis as these firms had all the necessary data publicly available (for the abnormal return analysis). The β_i was difficult to obtain for most companies, leading to a notable decline on the portfolios used for the other indicators

[7] Broad indicator reflecting the overall market success (and perception) of firms

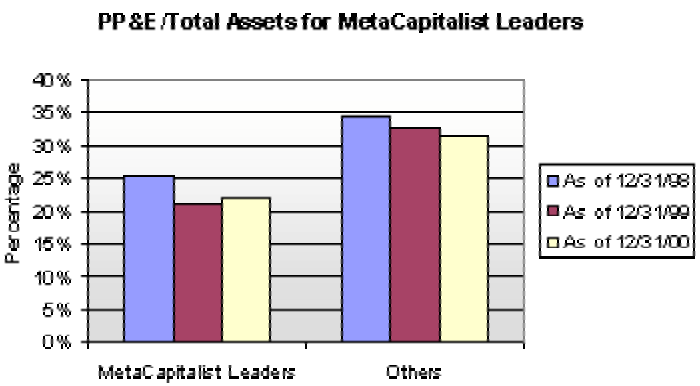
II.C.2. Degree of Decapitalisation

A major aspect of MetaCapitalism is restructuring to lower capital levels, allowing the firm to be more flexible and open to networking. As mentioned previously, it is expected that the MetaCapitalist firms will have a proportionally smaller base of physical and working capital and will also show a trend to continually reduce that base. The Degree of Decapitalisation can be measured using two ratios: (a) PP & E (Property, Plant & Equipment) ÷ total assets, (b) Net Working Capital ÷ total assets.

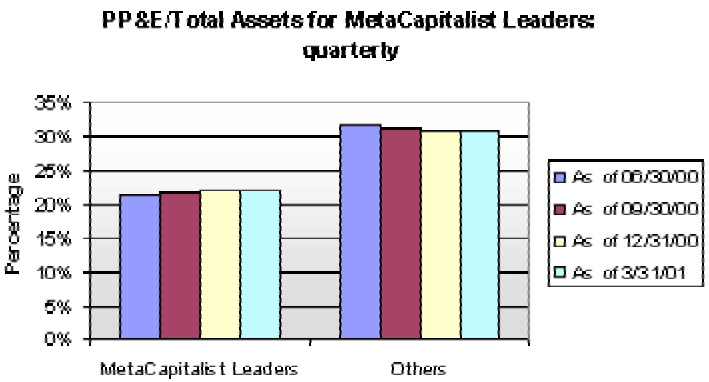
(a) PP & E (Property, Plant & Equipment) ÷ Total Assets

The MetaCapitalist leaders do indeed have a lower initial property, plant and equipment base than the fortune 100 firms. This was the case even before MetaCapitalism was publicly revealed. Since the MetaCapitalist leaders portfolio only contains 8 firms we should be cautious of the reasoning for this lower initial base. It may be due to implementing MetaCapitalist ideas over a number of years prior to the book's release, or due to an unbalanced difference between the two portfolios regarding the industry-composition or the stage of the business life cycle associated with the selected firms. For instances, we know Cisco 'has built its model without being hampered by a pre-existing, large capital base' [Means, 2000, p17].

The Fortune 100 firm's portfolio showed a consistent decline in their PP&E relative to their total assets, with annual decreasing rates of 4.64% and 4.58% (as shown in table 2). The MetaCapitalist performance is more sudden with the major decrease occurring through 1999 with a drastic 16.87% decrease – once again prior to the book's release. This suggests that the MetaCapitalist strategy was being applied before PwC went public about its model for the new economy. However, during 2000 the MetaCapitalist firms were not able to maintain this trend, revealed by an increase in their PP&E÷Total assets ratio of 3.19% to end 2000 at 20.01%.



Graph 6 – PP&E ÷ Total Assets for MetaCapitalist leaders



Graph 7 – PP&E ÷ Total Assets for MetaCapitalist Leaders: Quarterly

This trend is reinforced when analysing the past year on a quarterly basis. The MetaCapitalist leaders registered successive growing PP&E÷Total assets ratios from June 2000 to March 2001. Hence, those pioneers of MetaCapitalism appear to be levelling off - at least in the short-term. In a further twist, the other fortune 100 firms experienced a slight decrease during the period of 2.6% - is this a sign of convergence? It should be noted that the overall base for the MetaCapitalist leaders is still 28.7% higher than that of their rivals.

		98 and 99	99-00	6/30 to 9/30	9/30 - 12/30	12/31 - 3/31
Portfolio 1	difference	-0.025	-0.022	-0.007	-0.001	0.000
	% change	-7.62%	-6.56%	-2.16%	-0.25%	-0.08%
Portfolio 2	difference	-0.016	-0.008	-0.005	-0.003	0.002
	% change	-4.62%	-2.26%	-1.71%	-0.83%	0.71%
Portfolio 3	difference	-0.043	0.008	0.004	0.002	0.001
	% change	-16.87%	3.19%	1.46%	0.71%	0.38%
Portfolio 4	difference	-0.013	-0.008	-0.008	-0.001	0.001
	% change	-4.64%	-4.58%	-2.14%	-0.71%	0.39%

Table 2- Changes in Property, Plant & Equipment ÷ Total Assets

A change in any two-variable ratio can be directly traced to individual changes of the involved variables. From table 3, we notice that the annual changes in total assets for the MetaCapitalist leaders has grown at 13.9% (1999) and 9.5% (2000) over the past two years. The 1999 increase in total assets almost totally explains the decrease in the PP&E÷Total Assets ratio. Hence, although the asset base was still growing, the absolute portion of those assets in PP&E were virtually stationary, explaining the relative reduction. So, which assets lead to the increase in total assets figure? We will be better placed to answer this question after analysing changes in net working capital. It is also interesting to note that total assets grew relative to revenue (another measure of firm size) for both portfolios, suggesting the total assets increase was indeed substantial even in relation to increases in firm operations.

Metacapitalist Leaders	1998	1999	2000
Average Total Assets	118,535.7	134,974.2	147,858.3
Annual Change (%)		13.87%	9.55%
Cumulative Change (%)		13.87%	24.74%

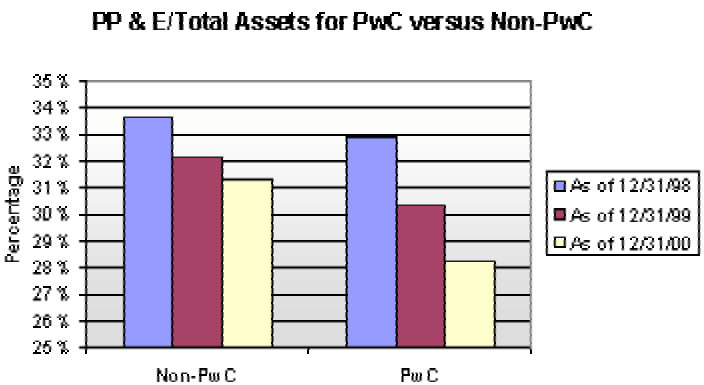
Table 3 – MetaCapitalist leaders changes in average Total Assets

A different story emerges when applying the auditor information. It is immediately obvious that both portfolios involved (that is, those firms associated with the Big 5) have been lowering their PP&E base consistently over the 2-year period.

This clearly shows a universal trend amongst the corporate heavyweights to follow these MetaCapitalist ideals, suggesting this strategy isn't unique to PwC or the firms they are consulting.

Since we are grouping the rival auditors (and consultants) into one portfolio, we would assume that individual consultants in this group would be more or less aggressive in this policy.

This would explain why the PwC-audited firms have achieved greater decreases - 7.62% and 6.56%, respectively – than the Non-PwC audited portfolio; we expect PwC to be very aggressive in implementing this policy given their public stance and belief in their model.



Graph 8 – PP & E ÷ Total Assets for PwC versus Non-PwC

Nothing drastic is revealed when reviewing the quarterly measurements beginning June 2000. However, it is interesting to note that both the PwC audited and the non-PwC audited firms experienced their biggest decline of the year during the 3rd quarter of 2000, measuring 2.16% and 1.71% respectively. This was followed by stagnant growth for the remaining analysed quarters.

We would expect a lag between the period of the book's release and the firm's restructuring, especially if firms were motivated and encouraged by *MetaCapitalism*'s ideas. It would only require a small number of firms to restructure during this period that would explain this large decrease. For instance, Lehman Brothers Holdings experienced a 19.4% change during the quarter starting June 2000. Regardless of any large individual

decreases, the overall PP&E ÷ Total assets for both portfolios only dropped

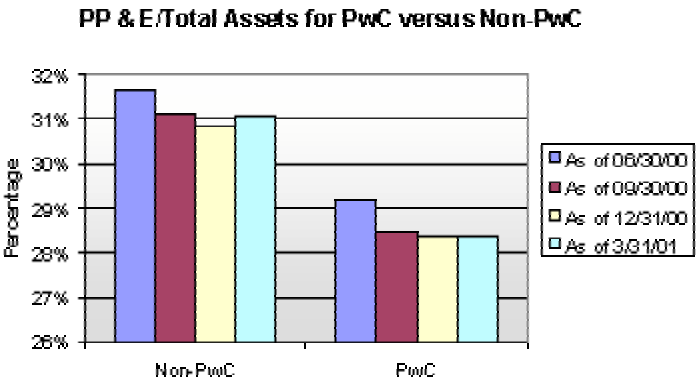
narrowly during the June 2000 to March 2001.

SUMMARY: PP& E / TOTAL ASSETS	
Expectation:	MetaCapitalist Firms will have low and reducing relative PP&E figures from 98 - 00
MetaCaptalist Leaders	* MetaCapitalist leaders have a significantly small beginning base. From 98 to 99, there was a large reduction (20%) for MetaCapitalist leaders. During 2000, this reversed and rose slightly. Fortune100 firms had steady decreases over the 2 years.
PwC Firms	* PwC firm's portfolio had major declines over both years (approx. 7%). Non-PwC portfolio had small declines both years (approx 5% and 2% respectively). Both portfolios had signs of levelling reductions of during beginning of 2001.
Verdict	**MetaCapitalist Firms aggressive applied this reduction during 1999, with an obvious levelling off during 2000.**

Table 4: Summary of results regarding PP&E/Total Assets

(b) Net Working Capital ÷ Total Assets

It is immediately visible that the MetaCapitalist leaders have a much higher average net working capital to total assets ratio than the other Fortune 100 firms. This is quite surprising given that the MetaCapitalist model seeks to free-up capital with the firm (eg – through lowering stored inventory and unnecessarily high-prepaid expenses).



Graph 9 – PP & E ÷ Total Assets for PwC versus Non-PwC

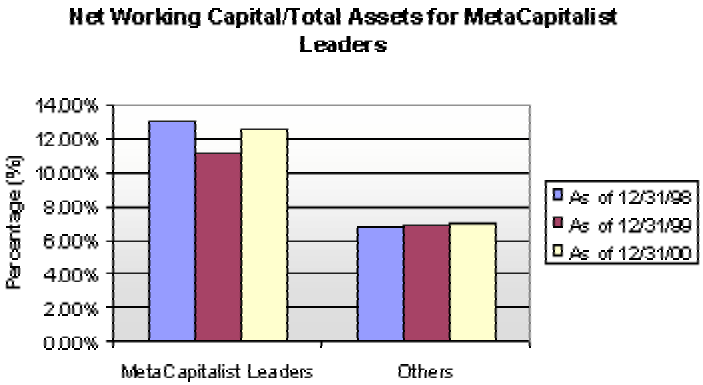
As shown in graph 9, the MetaCapitalist leaders have almost doubled the ratio of net working capital to total assets than that of the other fortune 100 firms. The year prior to *MetaCapitalism*'s release, a year in which these MetaCapitalist leaders would have been implementing these concepts, the ratio fell by 14.27%. However, this decrease wasn't sustained by an increase of 10.14% during 2000 (as seen in table 5). Once again, this points to evidence of the MetaCapitalist model showing signs of implementation but this trend being unsustainable or even reserved.

		98 and 99	99-00		6/30 to 9/30	9/30 - 12/30	12/31 - 3/31
Portfolio 1	difference	-0.003	0.001		-0.003	0.020	0.001
	% change	-3.10%	0.62%		-3.49%	26.81%	0.97%
Portfolio 2	difference	-0.006	0.011		-0.006	-0.016	0.012
	% change	-11.79%	16.55%		-7.32%	-19.18%	14.01%
Portfolio 3	difference	-0.019	0.013		-0.003	0.030	0.015
	% change	-14.27%	10.14%		-2.55%	22.95%	11.51%
Portfolio 4	difference	0.000	0.001		0.005	-0.014	0.007
	% change	0.70%	2.12%		6.51%	-18.55%	10.05%

Table 5- Changes in Net Working Capital ÷ Total Assets

On the other hand, the other Fortune 100 firms showed no signs to lower their already low net working capital base (which again may be attributed to an industry bias associated with the portfolio's composition). Obviously

firms must maintain a minimum amount of working capital in order to run efficiently (i.e.- need back-up inventory).



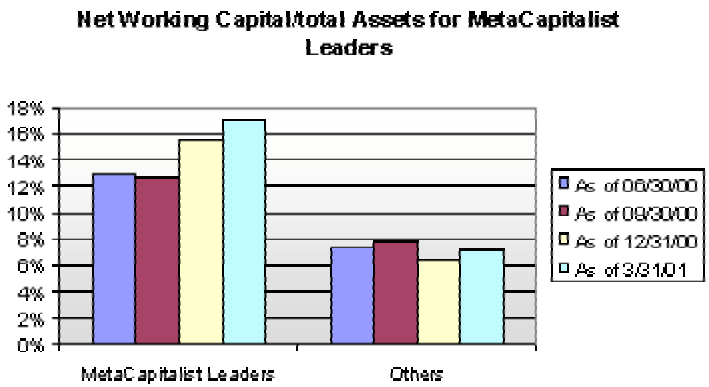
Graph 10 – Net Working Capital ÷ Total Assets for MetaCapitalist Leaders

Hence, the stability of the other Fortune 100 firm's average ratio may reflect an inability to move below this safety-barrier. The quarterly breakdown from June 2000 reveals an interesting development.

Despite an initial reduction of their net working capital base in 1999, there has been a drastic increase in this ratio over the last two studied quarters, with increases of 22.95% and 11.51% respectively (as seen in table 5). There is a discrepancy between the stated ratios for December 2000, as not all firms record their balance sheet information in identical quarters and dates.

The quarterly figure listed in graph 11 is likely to be more biased towards later results, as many firms finished their quarter at the end of January, which were grouped into the December figure. This is again consistent with a recent inability to maintain their lower net working capital base relative to their decreases achieved in 1999.

In fact the final ratio recorded was 17.06% in March 2001- significantly higher than the 13.1% recorded at the end of 1998. The other Fortune 100 firms showed no obvious change when assessed on a quarterly basis, to when they were analysed using annual data.



Graph 11 – Net Working Capital ÷ Total Assets for MetaCapitalist Leaders: Quarterly

In analysing the relative changes in net working capital for the MetaCapitalist leaders, we again must consider which variables lead to the initial change through 1999. We found that the net working capital ÷ total assets ratio fell by 14.27%, while we also know that the total assets figure increased by 13.9% (from table 3).

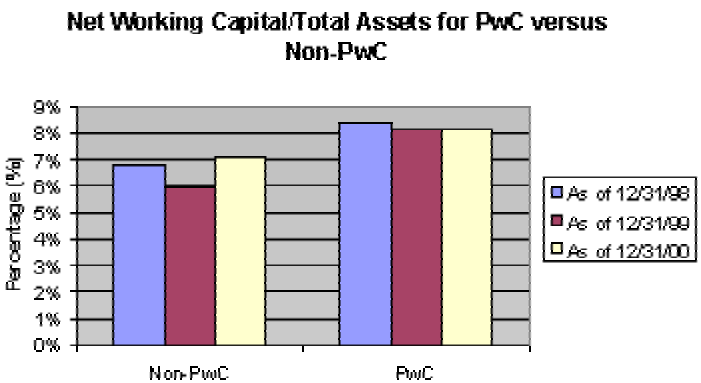
Once again, it is the changes associated with the total assets that are almost wholly responsible for the relative decrease in the net working capital. So if PP&E and net working capital didn't contribute to the increase in total assets during 1999, then which assets did?

Close examination of the MetaCapitalist leaders revealed a sharp increase in other long-term assets such as goodwill, intangibles and long-term investments. Sony experienced large increases in goodwill (110%) and intangibles (77%) during 1999, while Cisco experienced a phenomenal 888% increase (2000) in goodwill (finishing at 4,087 mil). However, the major increases shared by the group as a whole was in long-term investments and other long-term assets.

Long-term asset investments increased by 14.7% during 1999, while other long-term assets increased by 13.6% (1999) and 100% (2000) over the same period. Other non-current assets, refers to 'items which are clearly non-current assets but which cannot be classified under any other heading…examples are future tax benefits and deferred foreign exchange losses' [Gaffikin, 1993, p422]. Overall, it represents a shift from funds

being tied up in operations and physical assets to financial securities and future benefits.

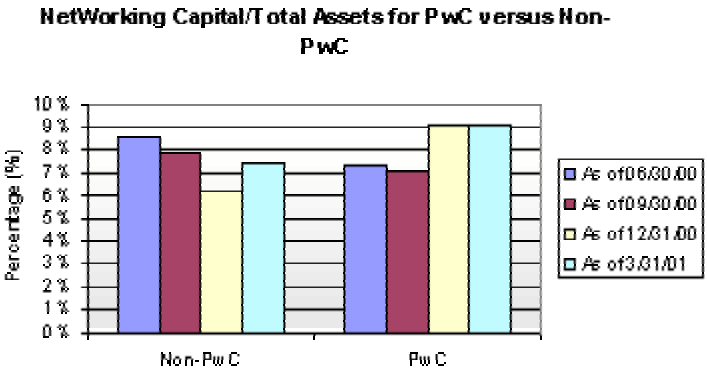
The immediate value of performing two types of analysis comes to the forefront when reviewing the net working capital to total assets ratio. Whereas the MetaCapitalist leaders had a high relative net working capital, the PwC-audited firms revealed a more comparable base to that of their competitors. Hence, this suggests that the large MetaCapitalist ratios may be due to only containing a small number of firms within the portfolio (and any industry imbalances) as opposed to any applied strategy.



Graph 12 – Net Working Capital ÷ Total Assets for PwC versus Non-PwC

Regardless, it shows that both MetaCapitalist portfolios revealed little evidence of lowering the net working capital base. In contrast, the non-PwC audited portfolio experienced a significant decrease in their ratio in 1999 by 11.79%, only to see it evaporate during 2000. It seems possible that non-PwC firms are providing consulting advice that includes MetaCapitalist ideas, with these short-term reversals (in 2000) reflecting the difficulty in maintaining any momentum.

Graph 13 reveals more intently the difficulties found, or unwillingness of, the Big 5 in lowering their clients' net working capital to total assets ratio. Both portfolios experienced ratio increases in 2001, despite having relatively low ratios towards the end of 2000.



Graph 13 – Net Working Capital ÷ Total Assets for PwC versus Non-PwC: Quarterly

It is interesting to note that during 2000, the PwC audited firms did indeed lower their net working capital to total assets ratio (to 7.09%), which isn't apparent when analysing graph 12.

However, like previous findings, any favourable trend that was consistent with the MetaCapitalist model was unable to be maintained, and inevitably reversed.

SUMMARY: NWC / Total Assets	
Expectation:	MetaCapitalist Firms will have low and reducing relative NWC figures from 98 – 00
MetaCapitalist Leaders	* MetaCapitalist leaders had approximately double the initial base of NWC. Experienced rapid decrease (approx 15%) in 99, followed by a 10% increase during 2000. Fortune100 experienced little movement.
PwC Firms	Higher initial base of relative NWC for PwC associated firms with little movement over the 2 years. Non-PwC portfolio experienced a small decline during 99 and a larger increase through 2000.
Verdict	**Evidence of aggressive conversion during 1999, followed by an non-recommended major reversal during 2000 (remembering greater emphasis is placed on the results of the identified metacapitalist leaders)**

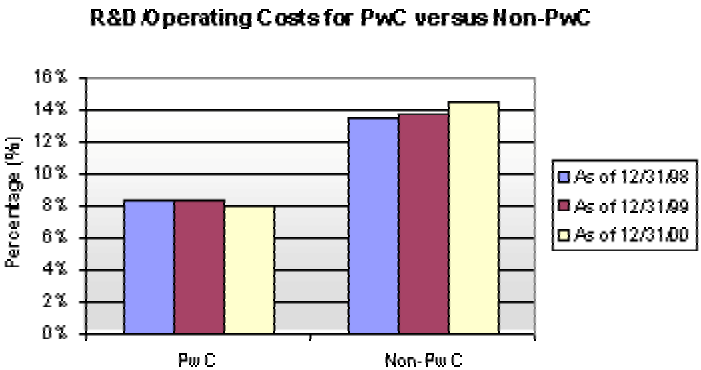
Table 6: Summary of results regarding NWC/Total Assets

III.C.3. Degree of Focus on Core Differentiators

In order to remain a viable player within the new economy, the MetaCapitalist model is suggestive to how the available capital is applied within the firm. An area of increased emphasis is on innovation and being a unique contributor to any networks joined. Hence, MetaCapitalism favours a high and increasing portion of their costs in R&D compared to their competitors, despite it being 'a highly uncertain process' [Palepu, 2000, p7-6].

(a) R & D (Research and Development) Cost ÷ Operating Costs

Due to the limited firm types that undertake or record research and development expenses, it wasn't feasible to analyse the MetaCapitalist leaders (i.e.-only 3 out of the 8 firms had listed R&D expenses). Therefore, the more equally weighted auditor-based portfolios will be used to review the R&D changes over the past few years. This ensures greater restriction in explaining the possible developments associated with its true performance.



Graph 14 – R&D ÷ Operating Costs for PwC versus Non-PwC

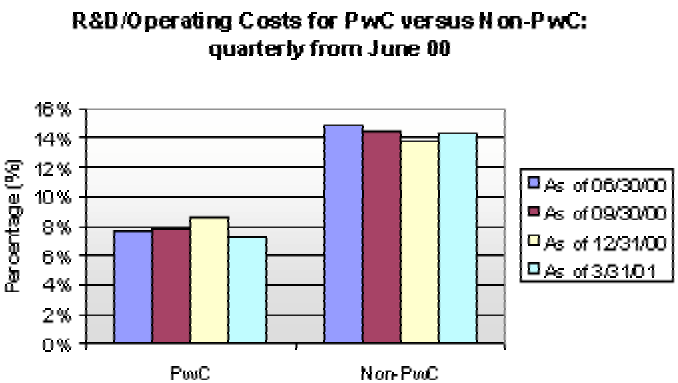
It is immediately striking (in graph 14) that the PwC-audited firms have a substantially lower R&D base than their non-PwC counterparts. This is unexpected given the repeated emphasis Means and Schneider place on innovation and a need for belonging under the MetaCapitalism model.

A likely explanation for this large difference in initial R&D to operating cost ratio deals with the composition of the type of firms within the two portfolios. Obviously each industry and firm type and age has different recommendations or benchmarks for standard R&D levels, and therefore, if this industry effect isn't totally balanced, then bias or premiums are going to be present.

		98 - 99	99-00	6/30 to 9/30	9/30 - 12/30	12/31 - 3/31
Porfolio 1	difference	0.001	-0.004	0.001	0.008	-0.014
	% change	1.06%	-5.21%	0.69%	9.91%	-17.64%
Portfolio 2	difference	0.002	0.007	-0.004	-0.007	0.006
	% change	1.34%	5.18%	-2.64%	-4.87%	3.74%

Table 7 – Changes in Research & Development / Operating Costs

However, it is still possible to analyse the recent changes associated with this ratio – representing the firm's conversion to the MetaCapitalist model. The non-PwC audited firms were measured as having a growing proportion of their operating costs in R&D expenses, with the annual percentage changes being 1.34% and 5.18% respectively (as seen in table 7). The PwC audited firms recorded a slight increase at the end of 1999 to reach 8.33%. However once again, this trend (despite its small magnitude) was reversed sometime through 2000.



Graph 15 – R & D ÷ Operating Costs for PwC versus Non-PwC: Quarterly

Graph 15 reveals some interesting occurrences during the four quarters captured. The PwC audited firms obtained an increase during the end quarter of 2000 (6 months after MetaCapitalism was released) yet it fell to its lowest recorded level in two years of 7.18% the following quarter (a 17.64% drop).

This again represents problems in permanently converting to the prescribed model. The non-PwC audited portfolio didn't show too much movement ending down only 0.56% over the studied period. Either way, analysts

must be curious when dealing with the R&D expense figures. For instance, it would be ideal to analyse the R&D on an individual company basis, as there is great diversity associated in its reported practice.

For instance, Palepu [2000] states that the US 'rules on capitalising and amortising outlays…provide management to potentially use their judgement to match R&D costs with the revenues they generate' [Palepu, 2000, p7-6]. Hence, analysts often use other research sources of the 'firms' research capabilities and successes, such as patent filings and FDA approvals' [Palepu, 2000, p7-6].

SUMMARY: R & D / Operating Costs	
Expectation:	MetaCapitalist Firms will have increasing relative R & D costs from 98 - 00
PwC Firms	PwC have a much lower initial R&D base. This is quite constant over the 2-year period. The Non-PwC portfolio has small increases for both years.
Verdict:	**Hard to conclude. Definitely no evidence of MetaCapitalist firms increasing their R&D costs from 1998 to 2000**

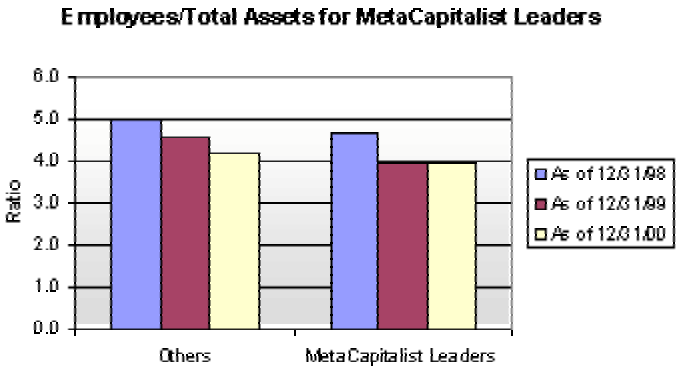
Table 8: Summary of results regarding R&D/Operating Costs

II.C.4. Downsizing

As previously mentioned, MetaCapitalism encourages firms into decapitalising their non-core base (both physical and human capital) to facilitate an increase in outsourcing and networking. Due to employee numbers only being disclosed annually, it was only possible to perform the analysis on annual data. As expected, the MetaCapitalist leaders had a large decrease in their relative employee numbers before the release of *MetaCapitalism*. It had fallen by over 15% during the end of 1998 to 1999, with every 'leader', except General Electric (GE), experiencing some degree of downsizing.

It should be noted that we expect the MetaCapitalist firms to have been transforming prior to the book's release, as their changes are used to sell the concepts and ideas associated with MetaCapitalism. However, this sharp reduction stopped during 2000, with the ratio remaining practically

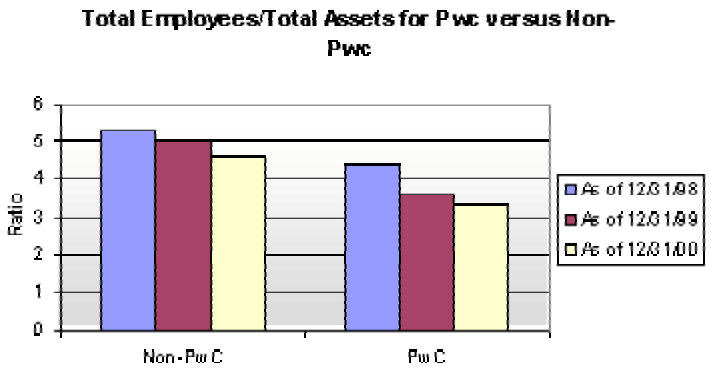
unchanged. Like the R&D figure, it is important to note that there is a limit to the amount of downsizing (and its timing and speed), especially with regard to non-economic factors such as a reduction in public support.



Graph 16 – Employees ÷ Total Assets for MetaCapitalist Leaders

The other Fortune 100 firms recorded consistent decreases at the end of both 1999 (-8.25%) and 2000 (-7.9%). This suggests that the whole spectrum of corporate leaders have been performing some serious downsizing, with the MetaCapitalist leaders being at the forefront of this movement. It would be interesting to see if the other fortune 100 firms will continue this trend to the end of 2001, which would suggest that the MetaCapitalist leaders' stagnate growth is a plateau and not a recommended limit.

There are many similarities that are immediately obvious between both of the downsizing-based graphs. Firstly, both the portfolios categorised by auditor-data show a definite decreasing trend, similar to that of graph 16. This suggests that the downsizing phenomenon is universally common, with no obvious groups excluded. Secondly, the PwC-audited firms have appeared to apply most of their downsizing during 1999 (with a 19.15% decrease in this ratio). This average decrease is even greater than that of the MetaCapitalist leaders (who are a subset within the PwC-audited firms), which confirms its wide-reaching appeal.



Graph 17 – Total Employees ÷ Total Assets for PwC versus Non-PwC

			98 and 99	99-00
Porfolio 1	difference		-0.843	-0.237
	% change		-19.15%	-5.38%
Portfolio 2	difference		-0.251	-0.409
	% change		-4.76%	-7.74%
Portfolio 3	difference		-0.745	-0.009
	% change		-15.86%	-0.18%
Portfolio 4	difference		-0.412	-0.395
	% change		-8.25%	-7.90%

Table 9 – Changes in Employee Numbers ÷ Total Assets

Although the MetaCapitalism firms (from portfolio 1 and 3) seem quicker and more aggressive in their implementation, it seems definite that this strategy isn't confined to just PwC-based firms. Since the MetaCapitalist strategy doesn't promote any drastic increase in the firm's asset base (i.e.- they encourage downsizing), it is likely that the ratio decreases are purely due to a reduction in employee numbers.

The non-PwC audited firms revealed a more gradual decent, recording average decreases of –4.76% (1999) and –7.74% (2000) – similar to that of the other fortune 100 firms. Perhaps this continued decline in 2000 by the non-MetaCapitalist firms, suggests that these firms are reacting to keep level with their more aggressive rivals.

SUMMARY: Employee Numbers / Total Assets	
Expectation:	MetaCapitalist Firms will have reducing relative employee numbers from 98 – 00
MetaCapitalist Leaders	Similar initial employee levels for both portfolios. The MetaCapitalist leaders experienced a major reduction during 1999 (approx. 17%), while there was little movement during 2000. The Fortune100 firms steadily declines over the two years (7% for both years)
PwC Firms	PwC portfolio had a large decrease during 1999, with a small reduction during 2000. Non-PwC firms experienced small decreases over both years.
Verdict:	**Definitely an overall trend of reducing employee base over all portfolios. The MetaCapitalist firms seemed to perform their major downsizing during 2000.**

Table 10: Summary of results regarding Employee Numbers/Total Assets

II.D. Overview of the Empirical Results

Although analysing each of the individual graphs and ratios is necessary, it is important to consider the various indicators as a collective group. MetaCapitalism is a multi-layered concept, and so it should be examined using a combination of the relevant measures. The individual commentary provides the basis for any further analysis, although it is often re-considered once the broader perspective is assessed (eg- such as the removal of previously unnoticeable 'noise').

This section will provide a brief overview of the various trends associated with the data analysis while exploring any related issues that aids our overall understanding. Hence, this discussion will also reveal our belief in rejecting the null hypothesis that the overall performance (and structural change) of the MetaCapitalist firms (over different periods) is similar to the performance of the non-MetaCapitalist firms.

The obvious stand out feature from the data-analysis is the structural change and stock value reversal experienced by the MetaCapitalist portfolios from 1999 to 2000. In 1999, the MetaCapitalist firms performed as the book suggested: lowering their degree of decapitalisation (both NWC and PP&E), large employee layoffs, slight increase in their relative

R&D. As revealed by Means and Schneider, such shifts were rewarded on the market, with substantially increases in share values.

The data reveals the MetaCapitalist strategy was being implemented heavily throughout 1999. However, it seems that this trend was halted during 2000 and even reversed. There was evidence of increasing levels of ratios involving PP&E (especially for MetaCapitalist leaders) and NWC, lowering relative R&D as well as minimal employee layoffs. And the corresponding stock values – an average 40% decline for the MetaCapitalist leaders from April 2000 to March 2001.

Another common feature of the data analysis was the various changes associated with the firms who had no obvious connection to MetaCapitalism (or PwC). Whereas the MetaCapitalist leaders were aggressive in their implementation during 1999, the non-MetaCapitalist portfolios revealed trends of a gradual implementation of some of the MetaCapitalist recommendations over the 2-year period. For instance, there was a steady decreases in the PP&E ratio, steady increases in relative R&D levels and gradual declines in employee to total assets.

It would seem that many of the MetaCapitalist ideas (regardless of their various fancy titles) seem to be filtering through to the entire economy. It is expected that the other large consulting firms would be recommending various elements of the MetaCapitalist model, as many of the MetaCapitalist ideas cater for technological improvements and capitalising of past efficiency gains.

So although the MetaCapitalist leaders may have been the most aggressive (which resulted in short-term reversals), their competitors have been more gradual in applying such changes. It could also be due to the non-MetaCapitalist portfolios containing a larger number of firms, therefore representing a broad average of the others' consulting advice. Hence, it is probable that a particular consulting group (or two) may have also been aggressive in their advice, but they cannot be identified due to the large size of the non-MetaCapitalist portfolios.

The book's public release in March 2000 may have also encouraged various firms to increase their urgency in applying such ideas. Even if its all-inclusive management audience didn't read *MetaCapitalism*, word of mouth and other mediums (eg- such as presentations and news articles) would help filter its ideas throughout the economy. This would help partially explain the lag associated with the conversion period and rates

between the tested portfolios (along with the changing advice offered by the consultants).

It would be interesting to obtain the increased interest shown in PwC during the 2000 period: was there a substantial increase or were the other consultants quick to adjust and reassure their customers of a similar service. Is it even remotely possible that the MetaCapitalist strategy is only a minor component of PwC consultancy's efforts, rendering this report's approach as inappropriate? Given its magnitude and its various related interpretations and practicalities, this would seem extremely unlikely.

Some mention should be made of using two different categories for capturing the MetaCapitalist performance: using the auditor as a proxy for PwC consultancy client and using the stated MetaCapitalist leaders. Increased emphasis was placed on the MetaCapitalist leaders' data, as these firms were considered as certainties in applying wide-ranging MetaCapitalist strategies. The two category approach seem to work as hoped, with many of the results being similar while also opening an awareness for different occurrences and happenings. The similarities of the results also suggest that using auditors as a direct proxy for consultants may have been reasonable (although it may no longer hold today). It should be remembered that it is difficult to be absolute about any reasoning associated with the data unless a more thorough investigation is incorporated. At best, we can only let the trends guide our thought process and apply logical and sensible reasoning to allow an impartial justification.

So the question remains: purely from the data analysis, what can we conclude about the future prospects of MetaCapitalism? There is definite evidence of unwanted teething and transitional problems during 2000. Even when we took into account the CAPM specific firm risk factors, there was still evidence of a poor performance associated to MetaCapitalism. This was considered a critical period for the strategy's ultimate success, as low firm confidence and commitment limits any possibility of testing how MetaCapitalist ideas would operate in reality.

Firstly, with the reversals (outlined above) experienced by the known MetaCapitalist firms, any such momentum from 1999 would appear to have been lost. If these changes had been more stable during the previous year, then it could have been a case of reaching some pre-determined level (or safety margin) for the current time. Such an unwanted turnaround (for the supposedly most-committed MetaCapitalist firms) conveys negative repercussions for those contemplating the MetaCapitalist way. It remains

to be seen as to whether this slowdown in conversion to the recommended model is only temporary (with the momentum to regather in a more favourable climate) or whether the model (in its entirety) is permanently halted. There is no doubt that various aspects of the MetaCapitalist model will be applied in the future, but as a complete model, MetaCapitalism may have other inconsistencies (mentioned later) that warrant future scepticism.

Another factor is that other firms have shown evidence of adopting similar advice, is a good sign that MetaCapitalist ideas (but maybe without its fancy title) are relatively widespread. This is an important consideration as MetaCapitalism is reliant on a high and continued participation for its true efficiency gains to have any actual chance of being realised. However, the future economic slowdown predicted (also mentioned later) will test the firm's true commitment to the MetaCapitalist strategy, with possible loss of confidence (and a loss in capacity) permanently restricting the strategies future prospects. In any case, this research documents a future not considered by the optimistic Means and Schneider in *MetaCapitalism* – not only reversals for the MetaCapitalist leaders in the short-term (and possibly permanently) but also economic instability and low levels of economy growth. Our argument seems more plausible when sorting the fortune 100 firms by their levels of MetaCapitalisation as in table 11.

It seems to suggest that corporations which MetaCapitalised the most have either failed or merged or experienced a significant fall in their share price, such as with Worldcom, Enron and Compaq. Is it a case of a misfortunate timing or possibly partial causation (remembering these MetaCapitalist leaders are market makers)?

1999 - 2002 (Post September 11, 2001)			1999 - 2001 (Pre-September 11, 2001)			2001 - 2002			2000 - 2001			1999 - 2000		
Fortune 500 Rank	Company	1999 - 2002 (Post September 11)	Fortune 500 Rank	Company	1999 - 2001 (Pre September 11)	Fortune 500 Rank	Company	2001 - 2002	Fortune 500 Rank	Company	2000 - 2001	Fortune 500 Rank	Company	1999 - 2000
26	Fannie Mae	-61.29	11	Philip Morris	-29.56	26	Fannie Mae	-62.05	11	Philip Morris	-28.47	7	Enron	-4.96
11	Philip Morris	-30.22	32	WorldCom	-10.55	41	Intel	-14.97	32	WorldCom	-10.55	27	Compaq Computer	-3.32
41	Intel	-16.59	27	Compaq Computer	-6.25	20	Chevron	-3.80	89	Phillips Petroleum	-5.36	72	Tosco	-2.44
32	WorldCom	-12.33	89	Phillips Petroleum	-6.06	14	SBC Communications	-3.26	74	American Express	-3.44	66	BellSouth	-2.38
27	Compaq Computer	-9.25	7	Enron	-5.86	75	Sprint	-3.06	18	Kroger	-3.27	41	Intel	-2.12
89	Phillips Petroleum	-7.91	107	Cisco Systems	-5.28	27	Compaq Computer	-3.00	107	Cisco Systems	-3.18	107	Cisco Systems	-2.10
107	Cisco Systems	-7.46	18	Kroger	-5.12	72	Tosco	-3.00	27	Compaq Computer	-2.93	18	Kroger	-1.85
7	Enron	-6.76	74	American Express	-3.99	16	Texaco	-3.00	20	Chevron	-2.41	25	Merrill Lynch	-1.83
20	Chevron	-6.59	72	Tosco	-3.00	88	Bristol-Myers Squibb	-2.94	55	Reliant Energy	-1.93	86	El Paso Corp.	-1.77
18	Kroger	-6.02	25	Merrill Lynch	-2.92	107	Cisco Systems	-2.18	14	SBC Communications	-1.74	9	AT&T	-1.71
72	Tosco	-6.00	20	Chevron	-2.79	60	UtiliCorp	-2.00	46	Safeway	-1.61	15	Boeing	-1.68
74	American Express	-5.35	46	Safeway	-2.69	89	Phillips Petroleum	-1.85	79	Microsoft	-1.59	60	UtiliCorp	-1.31
25	Merrill Lynch	-4.62	79	Microsoft	-2.23	32	WorldCom	-1.78	10	Verizon Communications	-1.44	52	United Parcel Service	-1.13
14	SBC Communications	-4.07	9	AT&T	-1.98	82	PG&E Corp.	-1.71	25	Merrill Lynch	-1.09	11	Philip Morris	-1.09
88	Bristol-Myers Squibb	-3.26	17	Duke Energy	-1.62	25	Merrill Lynch	-1.70	69	Lockheed Martin	-0.96	46	Safeway	-1.08
16	Texaco	-3.21	41	Intel	-1.61	57	Delphi Automotive Systems	-1.66	7	Enron	-0.89	34	Motorola	-0.99
17	Duke Energy	-2.37	66	BellSouth	-1.57	3	General Motors	-1.44	17	Duke Energy	-0.86	17	Duke Energy	-0.76
9	AT&T	-2.32	50	Freddie Mac	-1.32	74	American Express	-1.36	77	Alcoa	-0.85	89	Phillips Petroleum	-0.70
79	Microsoft	-2.23	69	Lockheed Martin	-1.20	42	Goldman Sachs Group	-1.32	28	Lucent Technologies	-0.79	2	Wal-Mart Stores	-0.70
46	Safeway	-2.11	14	SBC Communications	-0.81	92	Loews	-1.21	84	Georgia-Pacific	-0.77	50	Freddie Mac	-0.65
77	Alcoa	-1.94	77	Alcoa	-0.79	77	Alcoa	-1.15	54	Dynegy	-0.70	79	Microsoft	-0.65
82	PG&E Corp.	-1.76	2	Wal-Mart Stores	-0.74	59	Allstate	-1.15	50	Freddie Mac	-0.67	64	United Technologies	-0.63
3	General Motors	-1.56	67	Walt Disney	-0.63	63	Aetna	-1.13	67	Walt Disney	-0.63	68	ConAgra	-0.60
69	Lockheed Martin	-1.54	28	Lucent Technologies	-0.58	4	Ford Motor	-1.09	72	Tosco	-0.56	74	American Express	-0.55
42	Goldman Sachs Group	-1.44	64	United Technologies	-0.58	29	Sears Roebuck	-1.05	51	Cardinal Health	-0.49	108	Sony	-0.52
59	Allstate	-1.34	84	Georgia-Pacific	-0.58	86	El Paso Corp.	-1.04	88	Bristol-Myers Squibb	-0.47	82	PG&E Corp.	-0.52
92	Loews	-1.27	100	CVS	-0.48	47	MetLife	-1.02	100	CVS	-0.47	57	Delphi Automotive Systems	-0.45
85	TXU	-1.15	43	J.C. Penney	-0.46	85	TXU	-0.97	61	International Paper	-0.41	93	Coca-Cola	-0.40
57	Delphi Automotive Systems	-1.06	97	Supervalu	-0.42	7	Enron	-0.90	53	Pfizer	-0.36	20	Chevron	-0.38
29	Sears Roebuck	-1.03	54	Dynegy	-0.36	18	Kroger	-0.89	43	J.C. Penney	-0.33	16	Texaco	-0.38
47	MetLife	-1.01	88	Bristol-Myers Squibb	-0.32	48	Dell Computer	-0.75	23	Home Depot	-0.32	97	Supervalu	-0.35
28	Lucent Technologies	-0.91	23	Home Depot	-0.31	17	Duke Energy	-0.75	9	AT&T	-0.26	83	AutoNation	-0.30
63	Aetna	-0.88	78	Dow Chemical	-0.31	24	Morgan Stanley Dean Witter	-0.69	5	General Electric	-0.24	31	Procter & Gamble	-0.28
2	Wal-Mart Stores	-0.83	35	McKesson HBOC	-0.23	56	E.I. du Pont de Nemours	-0.68	75	Sprint	-0.22	69	Lockheed Martin	-0.24
84	Georgia-Pacific	-0.80	5	General Electric	-0.21	11	Philip Morris	-0.66	85	TXU	-0.14	8	Intl. Business Machines	-0.22
4	Ford Motor	-0.80	16	Texaco	-0.21	98	AMR	-0.51	78	Dow Chemical	-0.14	71	Honeywell International	-0.19
5	General Electric	-0.70	59	Allstate	-0.19	5	General Electric	-0.49	42	Goldman Sachs Group	-0.14	78	Dow Chemical	-0.17
64	United Technologies	-0.68	85	TXU	-0.18	108	Sony	-0.49	63	Aetna	-0.13	98	AMR	-0.16
66	BellSouth	-0.63	61	International Paper	-0.18	96	Sara Lee	-0.40	26	Fannie Mae	-0.13	65	Lehman Brothers Holdings	-0.16
100	CVS	-0.57	42	Goldman Sachs Group	-0.13	53	Pfizer	-0.40	56	E.I. du Pont de Nemours	-0.12	35	McKesson HBOC	-0.16
61	International Paper	-0.47	3	General Motors	-0.11	9	AT&T	-0.34	90	Walgreen	-0.10	43	J.C. Penney	-0.13
67	Walt Disney	-0.44	8	Intl. Business Machines	-0.10	69	Lockheed Martin	-0.34	59	Allstate	-0.09	37	Target	-0.11
97	Supervalu	-0.42	36	Kmart	-0.09	94	PepsiCo	-0.32	95	Tech Data	-0.08	59	Allstate	-0.10
98	AMR	-0.41	92	Loews	-0.06	28	Lucent Technologies	-0.32	1	Exxon Mobil	-0.08	3	General Motors	-0.08
36	Kmart	-0.34	82	PG&E Corp.	-0.05	71	Honeywell International	-0.32	35	McKesson HBOC	-0.07	4	Ford Motor	-0.07
71	Honeywell International	-0.34	90	Walgreen	-0.04	19	Hewlett-Packard	-0.31	97	Supervalu	-0.07	19	Hewlett-Packard	-0.06
108	Sony	-0.33	91	UnitedHealth Group	-0.04	61	International Paper	-0.30	57	Johnson & Johnson	-0.06	36	Kmart	-0.05
56	E.I. du Pont de Nemours	-0.33	71	Honeywell International	-0.02	36	Kmart	-0.25	2	Wal-Mart Stores	-0.05	91	UnitedHealth Group	-0.05
35	McKesson HBOC	-0.32	99	Caterpillar	-0.02	93	Coca-Cola	-0.23	36	Kmart	-0.04	99	Caterpillar	-0.05
75	Sprint	-0.26	6	Citigroup	0.00	84	Georgia-Pacific	-0.23	3	General Motors	-0.04	92	Loews	-0.04
78	Dow Chemical	-0.25	12	J.P. Morgan Chase	0.00	51	Cardinal Health	-0.16	24	Morgan Stanley Dean Witter	-0.02	85	TXU	-0.04
54	Dynegy	-0.24	13	Bank of America Corp.	0.00	8	Intl. Business Machines	-0.13	92	Loews	-0.02	100	CVS	0.00
8	Intl. Business Machines	-0.23	21	State Farm Insurance Cos.	0.00	64	United Technologies	-0.10	47	MetLife	-0.01	6	Citigroup	0.00
23	Home Depot	-0.17	22	American International Group	0.00	100	CVS	-0.09	6	Citigroup	0.00	12	J.P. Morgan Chase	0.00
90	Walgreen	-0.09	33	TIAA-CREF	0.00	95	Tech Data	-0.09	12	J.P. Morgan Chase	0.00	13	Bank of America Corp.	0.00
53	Pfizer	-0.07	39	USX	0.00	2	Wal-Mart Stores	-0.09	13	Bank of America Corp.	0.00	21	State Farm Insurance Cos.	0.00
6	Citigroup	0.00	40	Berkshire Hathaway	0.00	35	McKesson HBOC	-0.09	21	State Farm Insurance Cos.	0.00	22	American International Group	0.00
12	J.P. Morgan Chase	0.00	44	Conoco	0.00	68	ConAgra	-0.08	22	American International Group	0.00	33	TIAA-CREF	0.00
13	Bank of America Corp.	0.00	62	Wells Fargo	0.00	76	Southern	-0.05	33	TIAA-CREF	0.00	39	USX	0.00
21	State Farm Insurance Cos.	0.00	70	Bank One Corp.	0.00	83	AutoNation	-0.05	39	USX	0.00	40	Berkshire Hathaway	0.00
22	American International Group	0.00	73	First Union Corp.	0.00	90	Walgreen	-0.04	40	Berkshire Hathaway	0.00	44	Conoco	0.00
33	TIAA-CREF	0.00	80	Prudential	0.00	97	Supervalu	0.00	44	Conoco	0.00	62	Wells Fargo	0.00
39	USX	0.00	81	FleetBoston Financial	0.00	15	Boeing	0.00	62	Wells Fargo	0.00	70	Bank One Corp.	0.00
40	Berkshire Hathaway	0.00	87	New York Life Insurance	0.00	6	Citigroup	0.00	70	Bank One Corp.	0.00	73	First Union Corp.	0.00
44	Conoco	0.00	101	Viacom	0.00	12	J.P. Morgan Chase	0.00	73	First Union Corp.	0.00	80	Prudential	0.00

Table 11 - MetaCapitalism Transformations of Fortune 100 Companies from 98–02

A Proposed Empirically-Testable Model: Identifying a MetaCapitalist firm using Historical Data

Is it possible to identify a firm applying MetaCapitalist advice by using historical data from the previous few years? Means and Schneider

identified key indicators that could be used to differentiate a MetaCapitalist strategy. In the following flowchart, there is a summary of how the known-MetaCapitalist firms have performed against the authors' own criteria[8]. Obviously the firm's share price is a broader measure that considers the various changes associated with these key ratios. Hence, it is a useful exercise to determine if this model (based on their historical performance) can be applied to other firms (during the same period) to help classify if they are applying a MetaCapitalist-based strategy.

The flow chart-organised model is relatively simple to apply – a particular firm is compared to various ratio returns of the MetaCapitalist leaders (in terms of percentage changes). If the selected firm has experience similar patterns, then it seems fair to label them as applying the ideas preached in *MetaCapitalism*. An adjusted range[9] is used to reflect an 'average' percentage highs and lows, improving its applicability.

The small stars reflect key indicators in particular years, where the MetaCapitalist performance is clearly different to that of the non-MetaCapitalist average.

Hence, these should be pinpointed as vital clues to whether the test firm has aggressively applied to this futurist model. Net Working Capital to Total Assets is seen as the most differentiating indicator (and therefore possibly the most useful) while R&D over Operating Costs seems insignificantly different. As a whole, we would expect a firm applying a complete MetaCapitalist strategy to be within many of the stated ranges over the two-year period.

Once identified as a possible MetaCapitalist convert, it would be interesting to compare their overall market performance (or perception). Was it also similar to that of the MetaCapitalist leaders? If so, increasing evidence can be built regarding the market signals associated with re-structuring the firm to the MetaCapitalist recommendations. Although the book was launched ~~pu~~blicly during 2000 (March), 1999 appears to reveal major structural changes associated with the MetaCapitalist leaders.

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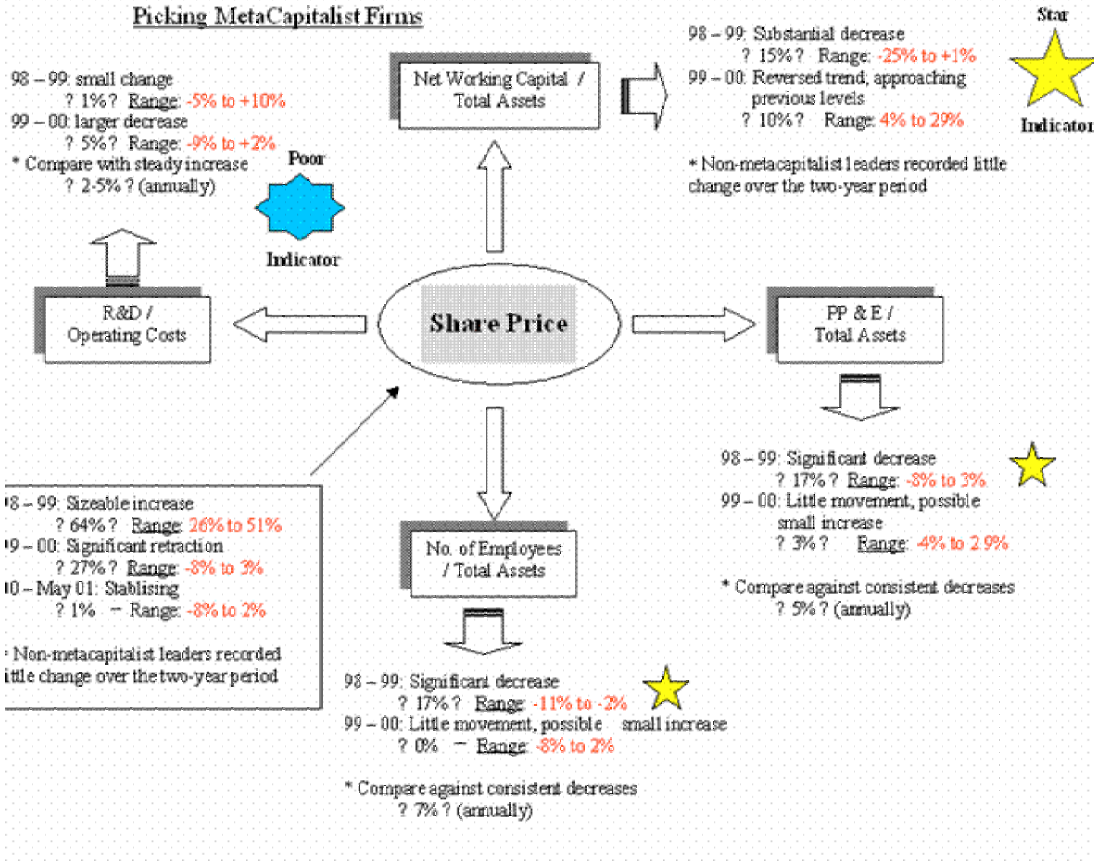
[8] The summary data uses information from the MetaCapitalist leaders. The average (annual) percentage change includes all firms in portfolio 3 (to the nearest degree for simplicity sake). The non-MetaCapitalist averages included the remaining Fortune100 firms (Portfolio 4).

[9] The ranges vary considering the number of outliers that were considered uncommon and therefore unreflective. The proportions of firms used in the various ranges were: NWC (70%), PP&E (70%), Employees (80%), R&D (70%) and share price (80%).

These major corporations were pioneers of the model (being the first to implement the ideas) so it wouldn't be surprising if some possible lag was present for the smaller companies (i.e.- perhaps they converted after reading the book). By all means, the annual time frames should still be useful in identifying those applying the model, provided necessary flexibility is applied.

Due to the size limitations and strict objectives of this project, this model will not be empirically tested. However, its practicality remains – there is an opportunity to use it in further understanding the recent MetaCapitalist performance while keeping an eye on future progress. Such a model can be easily maintained and updated, providing a clearer picture to how firms are adapting to *MetaCapitalism*'s recommendations.


Picking MetaCapitalist Firms
98 – 99: small change
? 1% ? Range: -5% to +10%
99 – 00: larger decrease
? 5% ? Range: -9% to +2%
* Compare with steady increase
? 2-5% ? (annually)
Poor
Indicator
Net Working Capital / Total Assets
98 – 99: Substantial decrease
? 15% ? Range: -25% to +1%
99 – 00: Reversed trend, approaching previous levels
? 10% ? Range: 4% to 29%
* Non-metacapitalist leaders recorded little change over the two-year period
Star
Indicator
R&D / Operating Costs
Share Price
PP & E / Total Assets
98 – 99: Significant decrease
? 17% ? Range: -8% to 2%
99 – 00: Little movement, possible small increase
? 3% ? Range: -4% to 2.9%
* Compare against consistent decreases
? 5% ? (annually)
98 – 99: Sizeable increase
? 64% ? Range: 26% to 51%
99 – 00: Significant retraction
? 27% ? Range: -8% to 3%
00 – May 01: Stablising
? 1% – Range: -8% to 2%
* Non-metacapitalist leaders recorded little change over the two-year period
No. of Employees / Total Assets
98 – 99: Significant decrease
? 17% ? Range: -11% to -2%
99 – 00: Little movement, possible small increase
? 0% – Range: -8% to 2%
* Compare against consistent decreases
? 7% ? (annually)

III. Critique and Discussion

MetaCapitalism sets new standards for improving corporate efficiency. Means and Schneider claim that to remain successful in the new economy, firms must shed any unnecessary excess and become lean, mean and totally focused on learning to do things faster and better. Through key policies such as increasing the reliance on networking and reducing any non-core assets, *MetaCapitalism* argues that the new economy will be a drastically more enjoyable place to live for all. Although MetaCapitalism painted a rosy future, its recent performance suggests that these desires haven't been interpreted as planned. Through discarding the 'consult-o-babble' and suggesting possible interpretations associated with the model, we become better placed to comment on the model's true merit.

When discussing financial markets, it is common knowledge 'that the price of the shares tells us about the market's expectations concerning the company's future performance' [Rappaport, 1998, p100]. Hence, it is the current perception of the company's future prospects given today's information set that determines the company's market value. Since this information set is likely to be imperfect and incomplete, 'investors will incorporate indirect evidence into their evaluations' [Grinblatt, 1998, p633].

This provides a motive for managers and the stakeholders of a firm to provide information-revealing decisions and prospects that may positively influence their company's external perception – and shareholder value. These actions may be profitable (and deceiving) in the short-term, but the relatively efficient nature of capital markets in the long term, suggests that prices will ultimately 'reflect real values' [Tvede, 1990, p10]. If a firm is priced favourably in the short-term (i.e.-overvalued), we expect future evidence or information (revealed by analysts or the firm itself) that will correct any current value premium, or as put by Tvede [1990], the 'big fish will sense something is wrong'.

In 2000, Means and Schneider told the world that the 'market is not wrong' [Means, 2000, p1] – a statement which must still stand today, regardless of the poor market performance of the MetaCapitalist leaders. Much debate and research has been devoted to this key element of modern finance, and it is impractical to discuss the various findings in this research. George Soros, the world's most famous investor (which reflects his strong practical knowledge of financial markets), writes heavily on how the market reacts in his 'theory of reflexivity'. He writes that when there is a flaw in the

participants' perception of the fundamentals, 'it sets the stage for a reversal in the prevailing bias' [Soros, 1994, p55].

He explains that 'if the change in bias reverses the underlying trend, a self-reinforcing process is set in motion in the opposite direction' [Soros, 1994, p55]. This is usually the case when the flaw in the foundations used is not apparent in the early stages but it is likely to manifest itself later on. Similarly, a market reaction to new hype may attempt to 'influence the events that they anticipate' [Soros, 1994, p49]. However, if unjustified over time, markets are forced to reverse in order to remove the initial bias. This theory has obvious similarities with the MetaCapitalist experience.

The market performance of a company, and the MetaCapitalist leaders, can often be traced back to its financial ratios. Financial analysis provides quantitative measures in analysing the 'firm's competitive strategy, operating policies and investment decisions' [Palepu, 2000, p9-1]. *MetaCapitalism* discusses certain benchmarks regarding key ratios and indicators, which themselves provide certain signals to the wider market. When the MetaCapitalist leaders gradually implement these plans, their stock performance may be our best overall guide to determine how these signals were actually received. Possible interpretations of MetaCapitalist ideas are discussed below:

Signals associated with Net Working Capital

A continuous theme of MetaCapitalism is a call for firms to decrease their degree of capitalization. We noticed that during 1999, the MetaCapitalist leaders had a relative decrease of net working capital (with regards to total assets). Net working capital comprises of elements such as total receivables, accounts payables, inventories and prepaid expenses – all areas that are critical to the short-term survival of firms. Hence, this 'operational capital' helps firms to remain liquid and weather any short-term difficulties.

Firms usually run their networking capital to industry standards – that is, the recommended amount that allows the firm to remain relatively efficient while still having a suitable safety buffer for those periods of potential hardship. Through targeting a lower net working capital as an efficiency improver, MetaCapitalism is sending 'the market' a clear message: the new economy will be so dynamic and reactive, that firms can now operate at lower levels of operating capital. As a result of advancements in networks and technologies, Means and Schneider suggest it is no longer practical to tie up excessive funds in inventories and prepayments.

This strategy is likely to be most effective under two conditions: (1) other firms are heavily converting to the MetaCapitalist or 'networked' structure, and (2) the economy is growing strongly. Under this favourable scenario, the MetaCapitalist leaders can maintain operations while having surplus funds for additional investments. Seems perfect. However, within an economic slowdown or a slow conversion to VACs (or the like), the lean MetaCapitalist firms aren't nearly as robust. Their increased reliance on networks leaves them increasingly exposed to the inefficiencies and problems of other firms. Also, with lower funds to call-on during difficult periods, their probability of creditor conflicts is magnified, leading to greater periods of financial distress. Although they have greater payoffs in a strong economy, the MetaCapitalist leaders don't signal the same confidence in a struggling economy.

Signals associated with Employee Layoffs

Two central themes of MetaCapitalism are reducing non-core assets (and activities) and outsourcing - an indirect request to lower employee numbers. Nortel Networks 'announced plans to escalate its total workforce reduction to 20,000 employees by mid-year' and 'Cisco plans to cut 8,500 of its 44,000 employees, its first major layoff in 17 years of operation' [DeNardis, 2001, p27]. Although a firm may have legitimate long-term economic reasons for mass staff reductions, the less-informed market makers may interpret this information as being unfavourable. When a firm increases employee numbers, the connotations are clear – the firm is in a position of strength and is looking to grow.

Sensibly, the opposite is signalled when numbers are reduced. It suggests the firm no longer has the capacity to pay their workers (possibly due to an unprofitable division) or a blatant attempt to improve previously unacceptable efficiencies (and profits).

Lower staff numbers may also signal a reduction in firm size, which could be viewed as a reduction in their market dominance, market share and overall competitive status. This could also affect their future financing and creditor deals, and overall pulling-power (through industry lobbying) and reputation bonuses. Hence, if employee reductions aren't for legitimate reasons (as well as being adequately communicated to the wider population), then the wrong signals could be disastrous for the involved firm.

More obvious economic problems evolve when employee downsizing occurs (or is advised) over a range of companies and industries, as is the

case under MetaCapitalism. Firstly, with a large portion of the workforce no longer required, there will be national decreases in the average spending income of the population (not to mention more luxurious savings). With this lower consumption follows lower corporate sales and an eventual economic downturn.

This natural progression unfolds with a lag, however there are also immediate signals associated with downsizing employees. With successive firms registering lower employers, the market views the economy as slowing down and there becomes an immediate feeling of uncertainty and lower confidence in the economy. This often accelerates any economic slowdown, as speculation is often self-fulfilling. Therefore, although encouraging widespread employee reductions may seem theoretically appropriate, the market and economy aren't likely to be patient in waiting for their potential long-term benefits.

Signals associated with Plant Property and Equipment

Reducing a company's plant property and equipment (PP&E) can also send negative signals to the market. Once again, PP&E is a major component of a firm's asset base (and overall size), so its stagnation may imply similar signals to those already mentioned. More specifically, PP&E has many other implications, being 'the most important long-term asset in a firm's balance sheet' [Palepu, 2000, p9-13].

It is a critical factor in determining the financial strength of the borrower, in terms of security, which directly affects its cost of capital. PP&E are seen as a solid fundamental, with its tangibility being useful in keeping its value under distressed periods. Hence, a relative reduction in PP&E could convey mixed signals to the market, especially in an economy where material possessions have been a common-theme to long-term success. Once again, this strategy (and model) is assuming a strong economic future, with security regarded as an unnecessary luxury.

Signals associated with Research and Development

Another area that has been targeted by the MetaCapitalist model is R&D. Successful leading firms are seen as prime candidates for large or increasing R&D expenses. It allows firms to maintain their market leadership and their expertise in innovation. Usually, an increase in R&D expenses for a large, established firm signals it is in steady health – it has surplus funds that are being allocated for future successes for the firm.

However, the market is likely to react differently if the R&D expenses aren't consistently translated into the anticipated benefits. It signals an inefficient allocation of resources and a possible reduction in its future market leadership. If the MetaCapitalist leaders are trying to increase their R&D to assist their conversion to the model, then it is necessary to show signs of success (or potential). Otherwise, the market makers will reject the R&D spending and will react accordingly.

The root of problems for many ineffective models can usually be traced to the assumptions. MetaCapitalism can be regarded as a model that requires many assumptions to hold over time to be theoretically possible. For instance, it requires many firms to structure their firms to be network-friendly, and then for those independent firms to work efficiently as a team (which is unrealistic given the immediate conflicting interests between different sets of stakeholders).

Add to this, a lessened capacity to weather rough economy periods (regardless if the catalyst is sudden or cyclical), and the model success suddenly seems anything but assured. Many of the ideas forming MetaCapitalism may lead to different interpretations from the various market makers (such as analysts). When new strategies are applied we expect the market to be positive – proven corporate leaders don't implement policies which they expect to be ineffective. However, if the model isn't implemented as planned, then the initial signals may be interpreted from a more negative stance.

If the MetaCapitalist firms can't convince the market about the expected difficulties in translating to the model, then the market will punish them in both the short and long term. Due to the afore-mentioned market interpretations of the MetaCapitalist model, it was vital for these firms to continually prosper in the short-term (in a strong economy) to avoid the negative signals snowballing their progress. This indeed further reveals the model's lack-of-depth.

The nature of MetaCapitalist theory suggests that it can only be prided on its ability to capture and predict economic happenings. It would seem unusual for key strategy consultants at a leading consulting firm to instil unjustified assumptions into their guiding framework. However, it is still feasible to review these assumptions while also understanding their reasoning behind their usage. Only then, will it be possible to determine if these assumptions are 'holding ground' in today's environment.

(a) Problems with Networks

Means and Schneider talk extensively about the value-added communities (VACs) that would allow MetaCapitalism to flourish. These networks, made-up with firms having specialized roles in the product/service process, are expected to interact cooperatively in meeting consumer demand. The authors believe that the competition for spots and maintaining alliances within the VACs will spur individual firms to remain efficient and show continuous worth to the network. Under traditional firm models, central ownership and management assured all facets of production were focused on the same goals. Hence, the interaction between business units was coordinated to suit the profit objectives of the same shareholders.

This is not so under the MetaCapitalist model – each individual firm is a profit-maximiser accountable to differing needs of different stakeholders. Within a system that requires greater reliance on others, the implementation of networks improves the bargaining power of individual firms and firms with similar operations. Hence, one can suspect various difficulties in lengthening the outsourcing chain.

Although Means and Schneider emphasize that all firms within the network can achieve unprecedented growth and wealth as it 'is not a zero-sum game' [Means, et all, 2000, p23], firms are accountable on a short term and individual basis. The competitive nature of firms will always remain prevalent regardless to the formed 'bond' within any network, and it is this factor that must be addressed for MetaCapitalism to materialize over time.

The true quality improvement associated with this increased outsourcing remains to be experienced: increased specialization gains versus greater cost cutting to achieve greater amounts of contracts. For networking to be useful, other assumptions must be considered: other industry members must accept networking with a similar vigour and the obvious transitional costs of incorporating a uniquely effective structure to contribute to the network. Hence, although networking is theoretically a sound b2b organizer, MetaCapitalism is exposed to such mishaps that can quickly underpin any obvious opportunities.

(b) The True Winners

MetaCapitalism prides its future success on its ability to better capture customer satisfaction. With a growing emphasis on brand capital and customer responsiveness, Means and Schneider suggest that

MetaCapitalism will reverse the previous 'sales "push" to…customer "pull"'[Means, 2000, p4]. With the brand-owners freeing up resources and non-core activities, this can then be 'focused on brand development, customer ownership, supply network management and other industry leadership processes' [Means, 2000, p7]. All this is aimed at improving the final services and products available to their globally based customers.

Since the networked firms need to remain highly efficient (and cost effective) just to keep their place in the highly competitive VACs, their abnormal growth and earnings seem limited. Instead, it seems most of the gains and savings will eventually be 'passed to the consumer in the form of better products and a higher standard of living' [Michaels, 2000, p26], especially in the short-term (while teething problems are present). Although achieving economic goals, the patience of the profit-driven corporate world will be tested, with other proven money-spinning techniques (such as diversification and building monopolies) becoming attractive options.

(c) The Understated Value of Stability

The current market shakeout is a reminder of 'how heavily market stability should be weighted as a criterion in any vendor selection process' [DeNardis, 2001, p26]. This suggests that for VACs to have the chance of efficient operations, factors such as due diligence must be considered in the formal evaluation process and not just 'costs, functionality and performance' [DeNardis, 2001, p26]. Recent occurrences, such as 'earnings warnings, stock valuation drops, and workforce reductions' [DeNardis, 2001, p28] and increasing bankruptcy filing, have reinforced the vulnerability associated with vendor assessment.

Once the dust settles, there will be a better understanding 'of which vendors and market segments will be standing' [DeNardis, 2001, p29] to improve the VACs long-term prospects. To achieve real progress, any new contracts should continue to push the envelope on 'quality of service and performance metrics – including penalties – and be as explicit as possible about technical support services' [DeNardis, 2001, p29]. This is an important lesson that firms of the new economy must apply for networking and MetaCapitalism to have any chance of success

Mean and Schneider's *MetaCapitalism* explores many vital constructs from tomorrow's leading firms. Despite their valid insights and recommendations, great doubt remains over their model in its entirety. The poor performance of MetaCapitalism's leading firms over the past few

quarters suggests possible teething problems with the model or more serious internal inadequacies. It is difficult to pinpoint any specific areas needing future adjustment. Hence, substantial merit is placed in improving the dynamic nature of the model, which may allow for the MetaCapitalist ideas to prosper.

IV. Conclusions

MetaCapitalism is a broad concept with the prospects and potential to have a large impact on the economy and society in general. Although its practical future seems blurred, it is important that the analysis of MetaCapitalism doesn't focus purely on the success of its implementation. Thus, to gain a true understanding of the model in its entirety, a suitable comparison (with undeniable parallels) could shed new light on the reasoning and true fate of MetaCapitalism.

Although not immediately obvious, there seems to be considerable value in comparing the MetaCapitalist model against the history of religious cults. Despite carrying negative connotations (an undesirable feature when trying to perform an objective analysis), the evidence seems overbearing and possibly predictive. Using cults as a comparative tool isn't unique; Clermont-Ferrand [2000] reveals that there is little difference between joining a cult and going to graduate school. She says that 'in both cases, an institution takes your money, gives you an identity, provides you with like-minded colleagues… and determines your social class and your perspective on the world' [Clermont-Ferrand, 2000, pB5]. Although different, it makes logical sense and provides a valid outlook on aspects of our education system.

A cult may be defined as a 'movement that is foreign to the culture in which it lives' [Szubin, 2000, p17]. It is more practically applied to the way 'society perceives the group than it does with the characteristics indigenous to the group itself' [Szubin, 2000, p17]. Similarly, MetaCapitalism aims to change mainstream perception about ways in which wealth and value can be created. Means and Schneider claim that only firms who adjust to their unique collection of ideas for company structure and operations will be viable in the not-to-distant future. All others will be destined to perish. Another characteristic of cults is 'a desire to be liked and to win the approval of one's new significant others' [Roberts, 1984, p144]. The whole purpose of the book MetaCapitalism is to entice potential members of its inherent truths.

Therefore, *MetaCapitalism* is loaded with details of its star performances – tales of success due to belonging to the club. The book is written in an uplifting, confident yet urgent tone, offering mere-mortal organizations the once-only opportunity to join their elitist future, which begins with membership. Then comes the cult leader – PwC. The cult leader is often regarded as charismatic, with many of the individuals being 'initially known as public do-gooders' [Rosenfeld, 2000, p1369].

PwC has built an unquestionable reputation – they are the world's largest professional services firm, reflecting a sizable contribution to improving corporate performance. The PwC leaders present themselves as experts (the prophets) with an emphasis on presentation and 'looking the part' to impress and reassure current members of their advisory credentials. Even their written word (through *MetaCapitalism*) contains a unique language and symbols, such as Business Process Re-engineering, Best Practice, CRM and so on, that invoke such feelings of 'awe' and a greater sense of belonging if you are 'in'.

For the group, or cult, to develop in a coherent way, 'members must accept the mandates of the ideology as it is formulated by the leaders' [Roberts, 1984, p145]. MetaCapitalism intertwines various corporate ideas, which can only be optimally applied to the individual firms by PwC. To succeed, members must be totally committed to the MetaCapitalist ways – PwC must be able to control the group in order to direct its development. Conveniently or otherwise, this requires long-term contracts – and guaranteed continued membership once they join. The mechanisms that enhance the moral commitment of their community of believers are often mortification and transcendence.

The promises of MetaCapitalism have been well documented previously. They promise the ultimate salvation: saying typical economic models will become redundant and firms will achieve unprecedented growth and wealth. They proclaim that 'we are on the verge of unleashing undreamed of possibilities and solutions to problems that have plagued the human race ever since we came down from the trees' [Means, 2000, p71]. It is our concern that rituals such as: MetaCapitalism, by the Consulting Cult has far-reaching 'social implications on too many groups or people and institutions within our global society' [Mickhail, 2001], which warranted this examination. Like many cults, reality doesn't follow their promised fantasies.

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